Austria	Sch28	Indonesia	Rp3100	Philippines	Pso40
Bahrain	Din0.700	Iran	Rls210	Poland	Zl 9,000
Belgium	BFr56	Israel	Shk3.50	Portugal	Esc150
Cyprus	C£0.90	Italy	L2000	Qatar	QR8.00
Denmark	DKr12.00	Jordan	Fils1000	S.Arabia	SR7.00
Egypt	E£3.25	Kuwait	Fils.500	Singapore	S$4.10
Finland	FM8.50	Lebanon	L£400.00	Spain	Pta165
France	FFr7.00	Lux	LFr55	Sweden	SKr12
Germany	DM2.60	Malaysia	M$4.25	Switz	SFr2.60
Greece	Dr150	Morocco	Dh8.00	Thailand	Bht50
Hong Kong	HK$12	Neth	Fl3.25	Tunisia	Din0.800
Hungary	Ft127	Nigeria	Naira10	Turkey	L1400
Iceland	IKr180	Norway	NKr12.00	UAE	Dh7.00
India	Rs15	Oman	OR1		

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,153

Monday May 21 1990

D 8523A

Eastern Europe

A health care system in need of first aid

Page 16

World News

Bush praises breakthrough in Moscow arms talks

US President George Bush has welcomed the Moscow arms talks as a breakthrough which ensures that his summit with President Mikhail Gorbachev in Washington in 10 days' time should be "another solid step forward" in the US-Soviet relationship. Page 16

Stalled EC meeting

A meeting of EC Foreign Ministers in County Kerry, Ireland, failed to produce definitions of political union in Europe and a plan of action to be put to a meeting of EC heads of government in Dublin next month. Page 2

Change in Taiwan

Taiwan's President Lee Teng Hui announced historic changes in the Nationalist Government's basic policy to improve relations with China. Page 6

Crisis in Egypt

Egypt has been plunged into a constitutional crisis after a court ruling that the present parliament was elected unconstitutionally at the last poll in 1987. Page 6

Lisbon congress

The Portuguese Communist Party (PCP) ended an extraordinary congress in Lisbon by reaffirming its Marxist-Leninist character and warning about recent changes in eastern Europe. Page 4

Korean riots

About 10,000 South Korean students and dissidents fought riot police in the south-western city of Kwangju. Page 6

S Africans wounded

Racial tension increased in the Orange Free State community of Welkom after South African police opened fire wounding 12 people in the black township. Page 3

Test for Ulster

Peter Brooke, Northern Ireland secretary, will tomorrow face one of the biggest tests so far in his quest to start talks on the province's political future when he resumes a meeting with Unionist leaders. Page 9

Estonians join up

Thousands of Estonians have been sworn in as members of a pro-independence home guard force on the eve of strikes threatened by pro-Moscow loyalists in the Baltic republic. Page 2

Deng returns

Veteran leader Deng Xiaoping still plays a major part in China's politics, state television reported, breaking official silence on the 85-year-old leader's role since his formal retirement in March. Page 6

Mafia controversy

President Francesco Cossiga of Italy has intervened to test allegations by Leoluca Orlando, crusading mayor of Palermo, that Sicilian magistrates are holding back on prosecuting Mafia perpetrators of a number of "political" murders of recent years. Page 3

Iran boycotts hajj

Iran said its pilgrims would stay away from the annual Moslem pilgrimage (Haj) to Mecca for the third successive year because of sharp differences with Saudi Arabia.

Aged fingerprint

A Chinese police expert has discovered what he believes to be the world's oldest fingerprint – left by a potter as many as 7,000 years ago on the inside of a water jar.

Nato fitness bid

Under the slogan "All aboard at Nato for a life-enhancing mission", notices pinned up at Nato headquarters in Brussels have been promoting lectures on heart fitness. Page 4

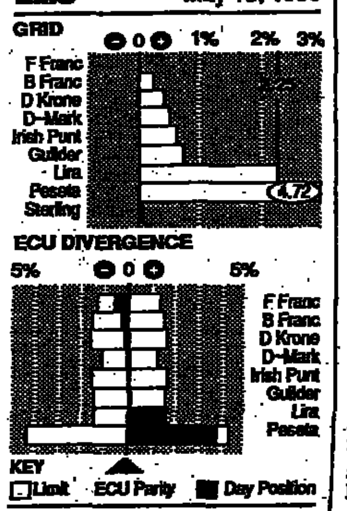
Business Summary

US banks cut loans but no credit crunch, says Fed

US COMMERCIAL banks are restricting loans on property and to some small and medium-sized businesses, but there is no general credit crunch, according to a Federal Reserve survey. The Fed's survey of 60 bank loan officers shows that since the end of last year, there has been "a considerable" tightening of lending policies on commercial property, excluding construction and land development loans. Total commercial and industrial lending has still grown this year, though at a slower pace in the second half of 1989. Page 16

EUROPEAN Monetary System: The Bank of Italy bought French francs, D-Marks and European currency units to prevent the lira rising above its upper divergence limit within the EMS last week. The French franc was the weakest member of the system, touching its minimum permitted level of L218.13 against the lira, but there was no sign of intervention by the Bank of France.

EMS May 18, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

MONTEDISON, Italian chemicals group which owns a 40 percent share in Enimont, the country's public-private chemicals concern, reported a 73 per cent rise in consolidated group earnings to L1,156bn ($956m) last year. Page 20

WORLD BANK and OECD study says cutting subsidies to farmers would save a considerable part of the $200bn they cost consumers and taxpayers in 24 industrial countries every year. Page 3

EUROPEAN Medicines Agency, new centralised EC agency for reviewing safety of medicines, is due to be established under plans for regulating the EC's £25bn-a-year ($42bn) pharmaceuticals industry after 1992. Page 4

GREEK conservative Government launched an ambitious privatisation programme by offering 28 heavily indebted industrial companies for sale to the private sector. Page 4

COMPAQ COMPUTER is due to launch a series of personal computer products with prices to rival those manufactured in the Far East. Page 20

OVE ARUP, UK engineering consultancy, released plans of its proposals for a £4bn Channel tunnel rail link to rival the European Rail Link rail scheme already under consideration. Page 9

MITSUI Real Estate Development and Mitsubishi Estate, Japan's two leading property companies, showed substantial profits growth in the year to March. Page 20

Vote rigging allegations mar Romanian elections

By Judy Dempsey and Owen Bennett-Jones in Bucharest

ROMANIA'S first free elections for over 40 years attracted a huge turnout yesterday but were marred by allegations of vote-rigging.

Reports from around the country indicated that the turnout could be as high as 80 per cent in the elections for both president and parliament.

In the industrial city of Ploesti, north of Bucharest, scores of people lined up outside one polling station, while inside both young and old people thronged to drop their book-size ballot slips into steel boxes larger than crates.

The signs across Romania were that Mr Ion Iliescu, leader of the ruling National Salvation Front which was catapulted to power after the overthrow of the Ceausescu dictatorship five months ago, would be elected President.

"I'm off to vote for Domn (Mr) Iliescu," said Mr Petre Anghelescu, an 81-year-old retired engine driver. "It's because of the food. Ceausescu was a robber. I used to queue six hours for bread, 20 hours for eggs. Now, there's no problem. We have everything."

As soon as the polling stations opened, however, there were reports of election-rigging from Bucharest and Iasi, a university town in the east of the country.

Bucharest radio reported that a woman in Iasi received a ballot paper which had already been stamped. Only voters themselves are permitted to stamp their ballot after they have voted. The radio called on the electorate to be "vigilant" in checking their ballot papers.

The 16m electorate faced a bewildering choice of 80 parties. The opinion polls, if they are to be believed, have consistently given around 40 per cent of the vote to the Front, 35 per cent to the National Liberal Party, 8 per cent to the National Peasants Party and 7 per cent to the Ecologist Movement. The final results are not expected until next Friday.

The opposition parties repeatedly accused the Front of intimidation and violence in the run-up to the elections. The Front has denied the allegations but has been reluctant to condemn intimidation openly.

The Front is expected to control the 389-member Assembly of Deputies and the 190-member Senate thanks to support from the workers and large sections of the peasantry.

However, the Liberals and their presidential candidate and leader, Mr Radu Campeanu, may do well enough to be invited to form a coalition with the Front.

The Front has insisted that it would be more comfortable with a working majority and a strong opposition, rather than a landslide victory. It would consider sharing power, perhaps with the Liberals, given the need for a national consensus in dealing with the country's economic problems.

Background, Page 2

Queuing to vote: peasants and a gypsy family wait outside a polling station in a village near Bucharest yesterday

Violence erupts in the West Bank and Gaza after Arabs shot dead

By Hugh Carnegy in Jerusalem and Tony Walker in Cairo

SEVEN Palestinians were killed yesterday and hundreds injured in the furious protest riots which followed in the occupied territories.

The scale of the rioting had not been since since the early days of the 29-month-old intifada, or uprising, in the West Bank and Gaza Strip. It came after an Israeli gunman shot dead a group of Arab labourers.

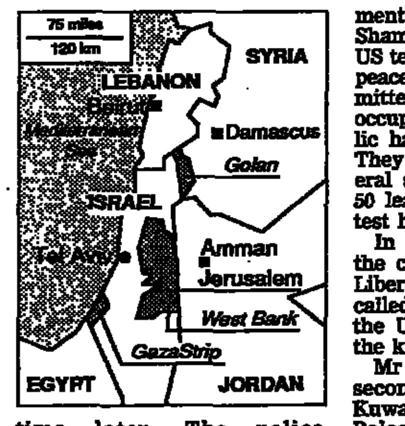
Israeli officials feared that the unprovoked killing of the seven workers, just outside Rishon le-Zion 10 miles south of Tel Aviv, would re-ignite the uprising.

Numbers killed in the rebellion have fallen sharply this year, allowing the authorities to claim it was being subdued, although resentment against Israeli rule has not diminished.

Arab leaders reacted to the killings with outrage, despite strong condemnation of the gunman's attack by the Israeli Government and many politicians, including those on the extreme right. It further soured an already tense atmosphere in the Middle East ahead of an Arab summit in Baghdad, aimed largely against Israel, on May 28.

Yesterday's events began shortly after 6am when the 21-year-old gunman, in Israeli army uniform and carrying an automatic rifle, opened fire on labourers from Gaza who were seeking work and had been waiting at a pick-up point nicknamed the slave market. In addition to those killed, 16 workers were wounded.

The man, whose motive was unclear, was arrested a short time later. The police announced he had been discharged from the army 18 months ago and had used his brother's uniform and gun. They said he was "deranged".



Thousands of Palestinians in Gaza, and to a lesser extent in the West Bank, then took to the streets in defiance of a blanket curfew imposed on Gaza and many places in the West Bank. Five demonstrators were reported killed in Gaza and two in the West Bank and hundreds more were wounded in clashes with the Israeli army.

Mr Yitzhak Shamir, the Prime Minister and leader of the Likud Party, called the shooting a "shocking act of madness" and expressed his condolences. Later he said the only way to stop violence was "through talks and negotiations".

But Palestinian leaders in the occupied territories blamed what they called the Government's extreme positions – Mr Shamir has refused to accept US terms for Israeli-Palestinian peace talks and is firmly committed to Israeli control of the occupied territories – and public hatred for Arabs in Israel. They declared a three-day general strike by Arabs and said 50 leaders would begin a protest hunger strike.

In Cairo, Mr Yassir Arafat, the chairman of the Palestine Liberation Organisation (PLO) called for an urgent meeting of the UN Security Council over the killings.

Mr Salah Khalaf, the PLO's second-in-command, told the Kuwait News Agency that "our Palestinian people and our guerrillas will take upon themselves to deliver a suitable reply to this Zionist atrocity."

Dr Esmat Abdel Meguid, Egypt's Foreign Minister, said the incident was a "response to the atmosphere prevailing in Israel and in the occupied Arab territories and is a result of the recent faltering of peace efforts." Mr Chedli Klibi, the Arab League Secretary General, called for a total Israeli withdrawal from the occupied territories.

Mr Mudar Badran, the Jordanian Prime Minister, said: "The Israeli authorities are authorities of terror." In an interview with the state-run television service, he accused Israel of encouraging "state terrorism, government terrorism and terrorism by their Zionist citizens against the Palestinian people." He said the issue should be tackled by the Arab summit due to be held later this month.

UK claims attitude on S African sanctions is changing

By Kieran Cooke in Sneem, Ireland, and Caroline Southey in London

MR DOUGLAS HURD, the British Foreign Secretary, yesterday maintained that the European Community's attitude towards South African sanctions had changed and said that an EC summit in Dublin in late June would again discuss the issue.

Speaking after a meeting of EC foreign ministers in Ireland, Mr Hurd said many of the ministers had agreed with the British position that it was now important to send a signal of encouragement to the Government of Mr F.W. de Klerk, the South African president.

"I hope that when we come to discuss the issue in more detail in June, what was heresy ... will now be accepted," he said. When the EC last discussed the issue in February, Britain was alone in calling for a partial lifting of sanctions.

However, although Mr de Klerk has won broad support in Europe for his reforms during his present six-nation tour, only Portugal has made an explicit call for the lifting of sanctions. Other governments have not yet signalled any intentions to change present policies.

Mr de Klerk yesterday left Britain for West Germany after meeting Mrs Margaret Thatcher, the British Prime

Continued on Page 16
S African clashes, Page 3

London site for European bank sparks EC row

By Patrick Harverson in London and Ian Davidson in Paris

THE DECISION to site the new European Bank for Reconstruction and Development (EBRD) in London under a French presidency prompted a serious row between member governments of the new institution yesterday.

Some of the smaller members of the fledgling bank, which will lend money to help rebuild the economies of the emerging democracies of eastern Europe, are unhappy at how the president and headquarters for the EBRD were selected. The Dutch Government has threatened to boycott the signing of the statutes of the new bank scheduled for May 29.

At Saturday's meeting in Paris, the EBRD's 40 government shareholders voted by 32 to 8 to elect Mr Jacques Attali, special adviser to President François Mitterrand of France, as president of the new multinational institution; and by 23 to 17 for London as the location for the bank.

The Dutch were upset that the choice of the location and presidency of the EBRD appeared to have been made before the Paris negotiating session started on Saturday. The UK, France and West Germany, with the support of the US, the largest shareholder of the new bank, were said to have reached a private agreement to vote for London and Mr Attali at a meeting of the Group of Seven finance ministers in Washington on May 7.

Jacques Attali: bank president

Mr Hans Van Den Broek, the Dutch Foreign Minister, said yesterday that he was "appalled" at how the decisions had been taken by just four of the biggest shareholders of the EBRD. He said that the smaller members of the bank had been confronted with a "fait accompli" in Paris.

The Dutch Government had originally championed its own candidate, Mr Onno Ruding, a former Dutch Finance Minister, for the presidency of the EBRD. But at the last minute on Saturday it had offered instead to endorse Mr Attali as president of the bank in exchange for agreement that the institution's headquarters

Continued on Page 16
Transition problems with uniting the Germanys, Page 14

Lotus and Novell break off software merger negotiations

By Louise Kehoe in San Francisco

LOTUS Development and Novell of the US called off at the weekend a $1.5bn merger plan that would have created the world's largest personal computer software company, after failing to agree on board control.

Lotus – creator of 1-2-3, a popular electronic spreadsheet program – signed a letter of intent on April 5 to merge with Novell, a leading personal computer networking company.

The planned merger was widely seen as a challenge to Microsoft, the leading personal computer software company.

Mr Jim Manzi, the ebullient president of Lotus, said then that the accord came after a four-hour dinner conversation with Mr Ray Noorda, president of Novell.

On Saturday, however, Lotus said it had terminated negotiations following a disagreement over the number of directors from each side.

"We are disappointed that we have had to break off negotiations," Mr Manzi said. "We expect our business to be unaffected by this action."

For Lotus, however, the merger represented an opportunity to broaden its product line. Novell could have strengthened its position in the market for local area network (LAN) software.

Novell's Netware remains the dominant personal computer LAN operating system, but is being challenged by a program called LAN Manager which has the backing of several big companies.

The merger would have "blocked the steamroller effect Hewlett-Packard, Microsoft and IBM have had with LAN Manager," said Mr Lee Doyle, an analyst at International Data Corporation.

Last year Lotus and Novell had combined revenue of $978m, compared with Microsoft's $952m.

Lotus had made several concessions, including offering to change the name of the company to Lotus-Novell and to appoint Novell's Mr Noorda as chairman.

But according to a Lotus official, "we had agreed that the board of directors would include four people from Lotus and three from Novell's side. Late on Friday night, Novell said they wanted four on the board so it would be even." Novell could not be reached for comment.

Another point of contention appears to have been who should succeed Mr Noorda, who, at 66, is expected to retire soon.

CONTENTS

THE MONDAY INTERVIEW

Jacques Calvet (left), the chairman of Peugeot, has dragged Europe's third-largest car maker from the trough of industrial disaster to the peak of prosperity. He is now changing his management strategy to pave the way for his own departure.
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FT SURVEYS THIS WEEK

Turkey

In the past 10 years, the country has come a long way towards a democratic society and free market system from martial law and economic stagnation.

TODAY:
Norway Waiting on events
Scottish Tourist Industry
Investors wake up

TUESDAY:
Ontario Making a good life even better

WEDNESDAY:
Automatic Identification
Codes for efficiency in many sectors of industry

THURSDAY:
Turkey (see panel, left)

FRIDAY:
Swindon To mock is to miss the point
London Docklands What is all the fuss about?

OVERSEAS NEWS

Moscow raises summit euphoria

By Our Moscow Staff

WITH 10 days to go before the Washington summit, the superpowers have "broken the back" of the remaining obstacles to a landmark accord slashing long-range nuclear arms.

But official euphoria over progress made in Moscow last week by Mr James Baker, Secretary of State - who had to face down last-minute Soviet brinkmanship - was clouded by the continuing deadlock over an urgently needed deal on conventional arms in Europe.

Apart from long-range missiles, Mr Baker and Mr Eduard Shevardnadze, Soviet Foreign Minister, reached firm agreement on a plan for their countries to cut chemical weapon arsenals by 80 per cent.

All but 2 per cent of current superpower stocks would be eliminated over eight years once an international agreement on poison gas was made, with the rest to be destroyed over two years in the event of a global ban.

While the compromises made by both sides on issues covered by the strategic arms reduction talks (Start) marked a personal achievement by Mr Baker, the chemical weapons accord closely follows a proposal by President George Bush.

It incorporates the concession he made last month when he said the US would stop making new chemical weapons, as well as cutting existing stocks, in the event of an accord.

On Start issues, Mr Baker and Mr Shevardnadze met in the middle over the thorny problems related to air- and sea-launched cruise missiles (ALCMs and SLCMs).

The US finally accepted the Soviet demand that the minimum range for ALCMs covered by the treaty be set at 600km. US negotiators initially pressed for a much higher figure but inched their proposal steadily downwards.

However, the Soviet side accepted the US position on the number of ALCMs which any given heavy bomber aircraft may carry.

Another Soviet concession was agreement to the US proposal for a "political binding declaration" on SLCMs outside the Start treaty. The US says SLCM limits within the Start accord - which Moscow had until recently demanded - would be impossible to verify.

Mr Baker said Start questions still unresolved included: sub-limits on mobile missiles, verification of road-mobile missiles, the Backfire Bomber and "several highly technical points."

None of these issues was expected to prevent substantial agreement of principle being announced in Washington next week – or, assuming no unpleasant surprises, signature of a full treaty by the end of the year.

The most worrying aspect of the East-West arms control agenda is the lack of progress towards a Conventional Forces in Europe (CFE) treaty, seen as vital in view of Germany's impending unity, the near-collapse of the Warsaw Pact and the need for a "new European order".

Both sides see a CFE agreement as a precondition for the successful holding of a Helsinki-style European security summit by the end of the year – which both favour.

Biggest obstacle to a CFE remains East-West differences over the maximum number of aircraft, with the Soviet side holding out for much higher ceilings. While Mr Baker was not authorised to negotiate on Nato's behalf, attempts to sound out Soviet reaction to lower aircraft figures met with little enthusiasm.

Other CFE problems include Soviet insistence on limits on forces deployed by individual countries, and differences over the definition of a tank.

European union stalled at meeting in Ireland

By Kieran Coke at Sneem, County Kerry

THE grand designs of European political union put forward by the French and West Germans appeared yesterday to have become lost, at least temporarily, in the mists of County Kerry.

A meeting of EC Foreign Ministers here at the weekend was to have produced some definitions of political union in Europe, and to formulate a plan of action to be put to a meeting of EC heads of government in Dublin at the end of next month.

In the event, very little seemed to have been decided. The French, architects with the West Germans of an initiative last month to hasten European political union, put an optimistic interpretation on the weekend meeting. "We have got the train started," said Mr Roland Dumas, French Foreign Minister. "Everybody agrees we now have to make a qualitative leap."

However, the meeting seemed to concentrate on what that leap did not mean. It does not, at this juncture at least, mean ceding any sovereignty on security and foreign policy. Mr Dumas said: "No country is willing to give up sovereignty on foreign policy and security matters in 1990, but we have to think about it."

Mr Gerry Collins, Irish Foreign Minister and head of the European Council, firmly ruled out any question of a common European defence policy.

Mr Douglas Hurd, UK Foreign Secretary, said few definite proposals on political union would be put to the June EC summit. He said the summit would be limited to making a decision on whether or not to hold a second Inter-governmental Conference (IGC) on political union in parallel to a similar conference on monetary union to be held at the end of the year.

Mr Hurd repeated Britain's lack of enthusiasm for such a second conference. "But, if others want it, we will be there," he added.

It appeared there was little enthusiasm expressed at the meeting for ideas concerning more powers for the European Parliament or for a new federal government structure in Europe.

Mr Jacques Delors, Commission President, said nobody could expect a federal structure to be in place overnight. "We cannot discuss the final stages of political union but instead we must discus the weaknesses of the present institutional system within the EC and see how it can be improved."

Ministers agreed that Community institutions should be subject to more democratic control and discussed ways of improving efficiency within the EC system. But it seemed that caution was the order of the day on carrying forward the process of political union. "I must emphasise that we are only at the very start of this process," said Mr Collins.

Estonians form home guard

by Christopher Bobinski in Tallinn

A NEWLY-FORMED Estonian home guard yesterday swore to defend their republic "to the last man" on the eve of a threatened strike here by Russians opposed to the independence of the Baltic states.

About 2,000 Estonian men gathered in military ranks in a square in the capital, Tallinn, overshadowed by the medieval town hall. Mr Edgar Savisaar, the Estonian Prime Minister, told them: "You have to defend our great liberty, our homes, our mothers, wives and children".

At the weekend, President Mikhail Gorbachev, the Soviet leader, revoked yet another piece of Estonian legislation passed last week which provided for the government of the republic in the interim period before full independence could be restored.

Mr Arnold Ruutel, the Estonian President, said yesterday he and Mr Anatolij Gorbunovs, the Latvian leader, would visit Moscow for a meeting tomorrow of the Federal Council, a body grouping the Soviet republics' presidents. He hoped to talk to Mr Gorbachev, and that Mr Vitautas Landsbergis, the Lithuanian leader, could be persuaded to attend.

On Saturday, the Lithuanian parliament discussed President Gorbachev's insistence that they suspend their independence declaration of March 11 before he is prepared to open any negotiations on the republic's possible secession from the Soviet Union.

There was no final decision. Most deputies oppose any change in the independence declaration, though they are ready to suspend implementing laws resulting from it. The debate goes on this week.

The Estonian home guard, an unarmed unit nominally under the local Interior Ministry, is commanded by Mr Andrus Oovel, chief of security at the Estonian Popular Front movement. It was formed last Wednesday after Soviet militants stormed a government building and retreated only when outnumbered by Estonians summoned by radio.

Yesterday in the bright sun, the guards, who are guarding key public buildings, swore to defend their country during an emotional ceremony punctuated by music from choirs in national costume. The atmosphere was remarkably free of tension with the crowds ignoring the few off-duty uniformed Soviet soldiers present in the square.

Soviet economic reform delay

By Quentin Peel in Moscow

THE Soviet Government has postponed once again the presentation of its fundamental economic reform package, which is supposed drastically to accelerate the switch to a market economy.

Mr Nikolai Ryzhkov, Soviet Prime Minister, is now due to present the plans on Friday, instead of today as originally proposed. The delay underlines the divisions in the government over the details and the balance of the package.

The new measures, covering an array of proposed economic laws and government decrees, are to spell out the Government's price reform plans and action to curb state monopolies, to establish financial and capital markets, introduce social security protection for the lower-paid and fixed income groups, and to offer new labour legislation.

They have already been sent back once by President Mikhail Gorbachev's presidential council for redrafting, in part to make them more palatable to a deeply sceptical public, and to include more radical measures to curb the power of state institutions, including ministries.

This year, the downturn of the Soviet economy has accelerated. Mr Gorbachev's closest economic advisers have urged him to abandon caution, and radically step up the pace, effectively abandoning the Ryzhkov strategy.

Whether the reforms are radical or piecemeal, there is growing doubt among Soviet citizens about the likely benefits. Komsomolskaya Pravda, the Communist Youth League newspaper, warned yesterday that any package may now fail to win approval in the Supreme Soviet. Half the chamber would oppose measures for not being radical enough in dismantling the central planning system, and the other half oppose them for failing to preserve price control and full employment.

Mr Gorbachev's advisers and top officials have greatly stepped up their propaganda in favour of reform over the past few weeks, so as to persuade the public that it has to come swiftly.

In an effort to soften the blows, the government appears to be opting for a price reform strategy involving increased producer prices from July 1, to be followed by anti-monopoly and social security measures, and retail price increases only from January 1. Even then, key foodstuffs and basic consumer goods would remain price-controlled.

Workers unite behind Iliescu

By Judy Dempsey in Ploesti, Romania

THE inhabitants of the Romanian city which can boast the world's first oil refinery and the strongest workers' movement in the 1930s yesterday came out in their thousands to vote for Mr Ion Iliescu as President.

Despite allegations that Mr Iliescu and his ruling National Salvation Front were behind the intimidation and violence during the election campaign, workers from the 250,000-strong industrial city of Ploesti, 60 km north of Bucharest, are solidly behind the former Communist Party activist.

"He comes from here. He knows our problems," said Adrian, a 20-year-old railway worker, adding that there was no violence during the election campaign.

His friends laughed. Zaharia, a technician, said: "The police stood by when my brother, who supports the Liberals, was beaten up."

In the grey, concrete, shabby suburbs of Ploesti, workers hoped that the food supplies would continue to improve.

"Since the December Revolution, it was Iliescu who improved things. Ion Ratiu (the National Peasants Party candidate) tried to divide the people. He was out of the country during the bad times. Iliescu was here. He gave us food. He promises us a better life," said one couple.

However, intellectuals in Ploesti remain sceptical about the Front. Those asked said they would vote for the National Liberal Party and Mr Radu Campeanu, its presidential candidate, who was forced into exile in France in 1974.

A retired engineer and his wife, a doctor, said: "We don't like the Front. The Communists are hiding behind them." Mr Mihai Gasco, a 50-year-old doctor thought the same. "Mr Iliescu is an old Communist. But the people are misinformed. They were manipulated. All the newspapers are in the hands of the Front. This was not a clean campaign."

Remaining Jews enjoy choice without chalk marks

By Owen Bennett Jones in Bucharest

"THE last time I voted in a free election was in 1937," said Mr Samuel Hirsch, 74, a resident in one of Romania's two homes for elderly Jews.

That vote was not exactly free, however. Those who voted against the Government had a chalk mark made on their backs. People waiting outside looked for the mark and beat up those who had not rubbed it off quickly enough.

Yesterday, a crowd surrounded the voting booths which had been installed in the home, many of the women residents were wearing their best clothes, and others were too excited to eat breakfast. The residents were hugely enjoying their part in the election of Romania's new head of state and parliament.

Two hundred Jews live at the home, which is named after Dr Moses Rosen, the Chief Rabbi who has led the Romanian Jewish community for the last 42 years. It is financed by an annual grant of $4.3m from the US.

The residents are among 20,000 Jews left in Romania. During the communist era, hundreds of thousands of Jews – 97 per cent of the community – left the country.

The small number that remains fears a renewed wave of anti-semitism and the National Peasants' Party, which they favoured in the 1930s, is now accused by them of links with extreme right-wing groups such as the Iron Guard.

Most Jewish votes appeared to be going to the ruling National Salvation Front, which includes Jews such as Mr Silviu Brucan in its senior ranks.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Apr.'90	Mar.'90	Feb.'90	Apr.'89	% change over previous year
Japan	107.9	107.1	106.7	105.0	+2.8
Belgium	110.2	109.7	109.4	106.8	+3.2
W.Germany	106.5	106.3	106.2	104.1	+2.3
US	119.8	119.6	119.0	114.4	+4.7
UK	132.2	128.3	127.1	120.8	+9.4
France	115.5	115.1	114.7	112.0	+3.9
Netherlands	103.1	102.7	102.3	101.0	+2.12

Source: (except US) Eurostat

THE FINANCIAL TIMES (EUROPE) LTD
Registered office: Number One, Southwark Bridge, London SE1 9HL.
Company incorporated under the laws of England and Wales.
Chairman: D.E.P. Palmer.
Main shareholders: The Financial Times Limited, The Financial News Limited.
Publishing director: B Hughes, 168 rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629
Editor: Sir Geoffrey Owen.
Printer: SA Nord Eclair, 15/21 rue du Caire, 59100 Roubaix Cedex 1.
ISSN: ISSN 0174/7363 commission paritaire no 67808D.

Financial Times (Scandinavia), Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335

Bank of Italy cuts official discount rate to 12.5%

By John Wyles in Rome

THE Bank of Italy's official discount rate was cut from 13.5 per cent to 12.5 per cent at the weekend, following the Government's adoption last Friday of an L11,750bn budget deficit reduction package.

Approved by the Treasury on the advice of the Central Bank, the interest rate manoeuvre restored the discount rate to its pre-March, 1989, level.

In an apparent attempt to emphasise that the cut should not be seen as an endorsement of the governmentc's budget strategy, the Treasury said the move was aimed at "contributing to the stability of the EMS".

Upward pressure on the lira followed the removal at the beginning of last week of all residual exchange controls in Italy. Strong capital inflows prompted large interventions by the Central Bank to prevent the lira hitting its upper ceiling against several other currencies in the European Monetary System.

The immediate impact of the discount rate cut should be to reduce the yields on government bonds and certificates and thus to help contain the cost of debt servicing. This is proving to be much higher this year than the L116,750bn the Government estimated last autumn, and could reach L125,150bn, according to revised figures published last Friday.

The new deficit reduction package raises the original 1990 target deficit of L133,000bn (10.4 per cent of gross domestic product) to just L135,600bn. The formula adopted is the by-now-familiar one of minor spending cuts allied to a variety of increases in indirect taxes.

These should boost revenues by an extra L5,050bn and will add between 0.3 and 0.4 per cent to the officially-targeted inflation rate of 5 per cent. Of the L6,700bn the Government expects to save on the expenditure side, some L4,500bn is to be delivered by the postponement of various programmes.

The absence of genuine lasting economies has been seized on by the Government's critics, including Confindustria, the industrialists' organisation, which has complained that the package will have "a heavy impact on companies' production costs". But the Government's ambitious medium-term programme through to 1993 seems to have taken note of the warnings that tougher action than previously planned is needed on the deficit.

The Treasury has brought forward to 1991 its aim of producing a budget surplus, net of interest costs, setting a target of L8,445bn for next year, rising to L41,033bn in 1993.

Cossiga intervenes in row over Mafia investigations

PRESIDENT Francesco Cossiga of Italy has intervened to test allegations by Mr Leoluca Orlando, crusading mayor of Palermo, that Sicilian magistrates are holding back on prosecuting Mafia perpetrators of a number of "political" murders of recent years, John Wyles reports from Rome.

Mr Orlando's claims on TV that prosecutors have enough evidence to try suspects amount to charges of a cover-up by men hitherto regarded as his allies in the fight against the Mafia.

Amid public consternation, Mr Cossiga announced at the weekend he would discuss the allegations with senior prosecutors from Palermo, Messina, Caltinasetta and Catania on Wednesday. The Ministers of the Interior and of Justice will also be present.

Although he is president of the magistracy's self-governing body, Mr Cossiga so far has played only a watching role in controversies which revealed divisions between anti-Mafia investigators and judges in Sicily in the last few years.

UK urges EC to modify farm trade stance

By Peter Montagnon, World Trade Editor

THE UK has urged its Community partners to modify their tough stand on world farm reform in order to facilitate progress in the Uruguay Round of multilateral trade negotiations.

Speaking after an informal meeting of EC trade ministers in Dublin, Mr Nicholas Ridley, UK Trade and Industry Secretary, said member states should distinguish the wood from the trees if a positive overall result was to be achieved.

"There was a strong element in the (Dublin) discussion which acknowledged we must go far enough in agriculture to get an agreement," he said in an interview.

Delegates said the UK wanted the EC to relax its demand for Uruguay Round agreement on a "re-balancing" mechanism allowing some increased support to farmers in specific areas as long as the overall level of assistance declined.

Vehemently opposed by the US, re-balancing forms an essential plank of the EC's negotiating position on agriculture. It would allow it to compensate its farmers for cuts in grain export subsidies with increased protection against rising imports of cereal substitutes.

Mr Desmond O'Malley, Ireland's Commerce Minister, said there is still no change in the European position on farm reform, but, several partici-

Ridley: agreement call

pants at the meeting said member states were now edging towards a realisation that flexibility was needed in a number of areas to complete the Uruguay Round successfully.

Efforts by Portugal at the weekend to obtain an EC commitment not to make further concessions on textiles were met "by a solid phalanx" of countries arguing in favour of a decent deal that could make developing countries more willing to satisfy EC demands for better protection for intellectual property rights, Mr Ridley said.

The EC remains resolutely opposed to the US idea of reforming world textile trade by introducing a system of global quotas that would catch European exports up in its present restraints.

The EC is not, however, willing to give up its insistence on the right to apply selective and discriminatory safeguard measures against countries whose exports disrupt its markets. This has upset many developing countries, but the EC believes it now has some tacit support from the US.

Despite continuing public condemnation of US unilateralism in Europe, it is now less clear that mandatory trade sanctions under US law will have to be completely abandoned before the EC agrees to a stronger dispute settlement system in the General Agreement on Tariffs and Trade.

Attention is shifting towards negotiating a compromise, constraining the way in which the US legislation is applied.

Subsidies cut 'would save taxpayers nearly $200bn'

By Nancy Dunne in Washington

CUTTING subsidies to farmers would save a considerable part of the $300bn (£125bn) they cost consumers and taxpayers in 24 industrial countries every year, according to a compendium of studies released today by the World Bank and the Organisation for Economic Co-operation and Development.

The cost of farm programmes to the Third World countries - in distorted markets, depressed commodity prices, and under-developed farm economies - is immeasurable. Still, as a boost to the current drive towards freer trade in agriculture, a key item in the Uruguay Round, the studies seek to quantify the damage inflicted on the developing countries, as their richer brethren empty their treasuries to buy up markets around the world.

Between increased agriculture protection and the macro-economic policies of the industrialised countries, commodity prices fell by almost 50 per cent in real terms between 1980 and 1987. As interest rates rose, markets grew increasingly unstable. Foreign exchange earnings dropped, and the developing countries struggled under a crushing debt-burden.

Based on papers produced for an international symposium last October in Paris – Agriculture Trade Liberalisation: Implications for Developing Countries, the studies draw on forecasts about the impact of free trade in agriculture.

The conclusion by the editors, Mr Ian Goldin and Mr Odin Knudsen, clarifies the insistence by the Third World countries on new rules for agriculture within the Round. Production would be likely to shift in their favour and, as a whole, the developing countries would emerge as net exporters, rather than importers, of farm products.

According to one forecast, if all the members of the General Agreement on Tariffs and Trade (Gatt) liberalised, the gain to the industrial countries in reduced government pay-out and consumer costs would be $60bn. The developing countries' gain would also be $60bn.

Since 1977, the agriculture trade balance of the less developed countries (LDCs) has sharply deteriorated. The combination of depressed world prices, along with developing country policies (such as taxing agriculture relative to industry) has discouraged output and lowered rural incomes in the Third World.

With reform, however, world food prices for many commodities would rise above their depressed mid-1980s level. The largest increases would come in dairy, meat and sugar prices, but grains would also rise.

Some countries would be winners; others, losers. One study reveals a net increase of rice exports from the Asian developing countries, with India, Indonesia and Bangladesh shifting from net importer to net exporter status. Africa and the Middle East would suffer a decline in net export revenues.

International price fluctuations would diminish to one-third of their current levels.

There is little debate over the long-term impact of agriculture trade liberalisation: it would result in a more efficient system for the world. Food aid would have to be made available to cushion the shock of higher prices in some of the poor countries. There might also be some provision made for storage of surpluses to be used in years of poor weather.

The real debate is on the short-term political effects and the distributional impact. Agricultural protection has affected both the resource use of other sectors and the policies of other governments.

Mexico 'to make big cut' in public deficit

By Richard Johns in Mexico City

MEXICO will cut its public sector fiscal deficit this year to one per per cent of Gross Domestic Product, the lowest level for 25 years, President Carlos Salinas de Gortari forecast at the weekend.

That would compare with an estimate in the Bank of Mexico's recent annual report of 5.9 per cent in 1989. The public sector fiscal deficit was 12.7 per cent of GDP in 1988 and more than 18 per cent in 1987.

The President's forecast came in a conversation with Mr Bob Hawke, Australia's Prime Minister, and Mr Toshiki Kaifu, Premier of Japan, taking part in the plenary session of the Pacific Basin Economic Conference.

In the first quarter of this year, Mexico achieved a primary surplus (before taking into account interest rates but including state parastatal companies).

The budgets of the parastatal companies totalled Pesos 15,473bn.(£3.5bn), a 10.7 per cent rise the over the same period of 1989, according to a report to Congress last week.

After a rise of 13.2 per cent in tax collection in 1989, state revenue in the first quarter rose by 4.5 per cent in real terms to nearly Pesos 28,000bn – 13.8 per cent more than programmed, with nearly all the improvement accounted for by petroleum revenues.

Public spending rose 12.8 per cent at Pesos 34,308bn during the period.

But the figures show the primary fiscal deficit of Pesos 6,600bn – somewhat confusingly not including the parastatals – was 11 per cent lower in real terms.

State companies apart, the paradox is largely accounted for by benefits resulting from the final agreement on the restructuring and reduction of $47bn of public sector debt to the commercial banks.

● Joseph Mann reports from Caracas: Venezuela's inflation rate this year should fall to an annual 25 per cent, compared with 84 per cent during 1989, Mr Pedro Tinoco, president of the Central Bank of Venezuela, said.

S Africa police wound 12 blacks

By Michael Holman in Johannesburg

RACIAL tensions heightened in the Orange Free State community of Welkom yesterday after South African police opened fire wounding 12 people in the town's black township.

The shooting took place after a meeting in Thabong township, at which residents decided to suspend their 11-day consumer boycott of white businesses.

The boycott, called to protest against attacks on blacks by right-wing white vigilantes, appears to have had a significant effect on smaller businesses in the town.

A resident said police opened had opened fire without warning, as people returned to their homes after the meeting.

Police are maintaining a large presence in Welkom, after an incident last week in which two white employees of a local gold mine were murdered by rioting black mineworkers.

● The South African Government and the African National Congress (ANC) have agreed on principles for the release of remaining political prisoners, according to the Johannesburg Sunday Times newspaper.

The release of prisoners is viewed as one of the most difficult remaining obstacles to the start of negotiations on a new constitution.

Ruggiero flies to Moscow

MR Renato Ruggiero, Italy's Foreign Trade Minister, flew to Moscow yesterday apparently ruling out the option of sharply cutting exports to the Soviet Union in response to Moscow's failure to make payments on existing contracts, John Wyles reports from Rome.

But the minister said Italian companies could not go on signing contracts with the Moscow "without precise Soviet plans for making the necessary currency available".

He favoured dealing with the problem by urging Moscow to step up its deliveries of gas, petroleum and raw materials to Italy, "otherwise everything will stop".

No figure has been put on accumulating Soviet debts with Italy. Mr Ruggiero suggested that the problem was partly due to Soviet companies, new to the rules of the market, ordering goods without automatic foreign currency cover from the central authorities.

OVERSEAS NEWS

Greece offers 28 companies to private sector

By Kerin Hope in Athens

THE Conservative Government in Greece has launched an ambitious privatisation programme by offering 28 heavily indebted industrial companies for sale to the private sector.

The ailing companies belong to the Industrial Reconstruction Organisation set up by a Socialist Government to administer companies which it nationalised in the early 1980s.

Most companies will be offered to individual buyers, Greek or foreign, but several will be floated on the Athens Stock Exchange, according to Mr George Souflias, Economy Minister.

Half-a-dozen companies, which show operating profits, are being revalued by local banks and investment advisers. Among them are a leading cement-producer, an Athens department store and a yacht-builder.

Another 21 companies controlled by the IRO will be liquidated, Mr Souflias said. Sales of their assets will provide funds to help service debts of more than Dr120bn (£439m) owed by IRO companies to Greek banks.

About 6,000 workers who will be made redundant by the closures are to receive salaries for one year and retraining under a special government scheme. Employees of privatised companies are to be offered shares at special rates, as part of the Conservatives' policy of spreading capitalism.

The next stage of the privatisation plan calls for state-owned Greek banks to sell or liquidate more than 200 industrial companies which they control. These include shipyards, mining companies and major textile producers.

Several banks are anxious to unload their ailing companies as part of efforts to streamline operations in time for the single EC market of 1992.

Mr Souflias said the only companies required to remain under state control would be defence-related, such as ammunition and military vehicle manufacturers, and a repair-and-maintenance plant for combat aircraft.

Portuguese CP spurns deviation from orthodoxy

By Parick Blum in Lisbon

THE Portuguese Communist Party (PCP) ended an extraordinary congress yesterday by reaffirming its Marxist-Leninist character and warning about recent changes in eastern Europe.

The PCP, among the most orthodox western communist parties, has viewed recent developments in eastern Europe with much apprehension.

In a closing speech punctuated by concerted clapping and chanting by delegates, Mr Alvaro Cunhal, 76-year-old party leader, made clear it was not about to abandon its orthodox policy.

He said the party supported the efforts of the Soviet communists to restructure Soviet society within socialism, but he warned against changes under way elsewhere.

"In relation to the changes in the socialist countries of eastern Europe, the congress identified five negative features which show a distancing from the communist ideal and a serious break with the principles and characteristics of socialist societies under construction," he said.

Mr Cunhal's message will give little hope to the small band of party reformers. There was no evident dissent among delegates. A handful of critics only had won representation at the congress.

Mr Carlos Carvalhas, an MEP, was elected to a new position of deputy general secretary, which makes him the most likely successor to Mr Cunhal, who has led the party since 1961.

Swedes rush to capitalise on tax loophole

By Tim Dickson in Brussels

SWEDEN'S image as a Scandinavian socialist paradise is being revised in Belgium after an extraordinary influx of Volvo-driving millionaires.

Diplomats and lawyers in Brussels say that as many as 25 wealthy exiles a week are arriving here before the expected closure of a loophole in the Swedish/Belgian double taxation treaty later this year.

"I just didn't know we had so many rich people," one puzzled Swedish expatriate commented yesterday. "They really seem to be crawling out of the woodwork."

Panic appears suddenly to have gripped his well-heeled countrymen because of rumours that Finance Ministry officials in Stockholm and Brussels have provisionally agreed details of a revised double tax treaty ending legally sanctioned tax avoidance on property disposals.

If confirmed, the change will mean that Swedish nationals living in Belgium will no longer be able to sell their residential and commercial real estate assets back home and escape hefty capital gains and wealth tax payments under Swedish law (which can run up to 65 per cent).

Although Belgium over the years has often vied with the Scandinavian country for the dubious honour of having the highest income taxes in Europe, it does not have a capital gains tax.

The current double tax treaty between the two countries is widely seen as an anomaly, especially in Stockholm. It does not follow the guidelines of the Organisation for Economic Co-operation and Development and effectively means that Belgium is the last European "escape route" for the highly taxed Swede. Similar loopholes in the treaty with the UK were dealt with a couple of years ago.

Swedish officials estimate that more than 100 nationals moved to Belgium last year and sold property on which they would normally have paid an average $500,000 in taxes.

A German compromise that makes economic sense

Daniel Gros and Alfred Steinherr look at the Bonn-Berlin currency conversion pact

AGREEMENT seems to have been reached on the conditions for German monetary union, to take effect on July 2. The terms are close to West German Chancellor Helmut Kohl's electoral promises: each East German will be able to exchange 4,000 East German marks into D-Marks at the favourable rate of one-to-one.

Above that ceiling, each D-Mark will cost two East German marks. Wages will be converted one-to-one, pensions will be related to wages, and debts of the state-owned banks will be converted at two-to-one.

This agreement is often considered to be politically motivated, while the Bundesbank's earlier proposal of conversion at two-to-one is thought to reflect economic reality. The agreement, in fact, does make more economic sense than is generally recognised.

We have argued elsewhere[1] that converting wages at much less than one to one would lead to inflation without increasing East German competitivity. Here this issue is put to one side. The question is, instead, whether the conversion rates for financial assets and liabilities are appropriate.

The balance sheet of the East German consolidated credit system, recently made public, provides a useful background for discussion of the conversion rates for financial assets and liabilities. One thing will be noticed at once: the balance sheet at the end of 1989 is much larger than would be expected from the widely discussed figure of about 176bn East German marks in household savings deposits.

Attention has been focused on the most important item on the asset side – 260bn East German marks in "credit to enterprises". This attention is misplaced. East Germany has only two sectors: households and the state. The latter includes enterprises (all government-owned) and the "external" sector (through the government monopoly on foreign trade). What matters to the future united Germany is the consolidated net worth of the East German state, not what one part of it owes another.

The economic impact of currency conversion depends on the net creditor position of households vis-à-vis the government sector. This was equal to 170bn East German marks (176bn in savings deposits, plus 17bn in cash, less 23bn in real estate credit).

Not every East German can convert the full 4,000 marks, but that amount would give a maximum of 64bn East German marks for conversion at one to one, and 106bn for conversion at two to one. Thus the 170bn East German marks of the end of 1989 will turn into no more than DM117bn. Thus conversion at two to one for sums of more than 4,000 East German marks will reduce the implicit transfers from the Bundesbank (through the so-called compensatory items) by about DM50bn, compared with full one/one conversion.

Would this amount of D-Marks be enough to create an inflationary "monetary overhang"? A monetary overhang arises if the increase in the money supply in D-Marks exceeds the increase in money demand from the East German economy. The increase in the money supply can be calculated mechanically from the existing stock. But the additional demand for money is difficult to estimate.

The difficulty is that it is not clear what kind of "money" these deposits represent. If East German savings deposits were essentially sight deposits (M1), because they can be cashed without notice, the additional demand for D-Marks would only be about DM40bn on normal West German monetary ratios and conversion at four to one would have been appropriate. If they were true savings deposits (M3), the additional demand for D-Marks would be about DM80bn on normal West German monetary ratios and conversion at two to one would have been appropriate.

Last, if they are simply the sum of all financial assets (because no other liquid instruments were available until now), then even a conversion rate of one to one would appear to generate no monetary overhang.

On balance, the last view seems the right one. Even so, a monetary overhang cannot be ruled out. This uncertainty may justify a temporary freezing of savings accounts above certain threshold levels. With this qualification, the proposed conversion seems quite sensible.

1: German Unification in European Perspective, CEPS Working Document No. 49, March 1990.

The authors are respectively Senior Research Fellow, Centre for European Policy Studies (CEPS), Brussels, and Director of Financial Research, European Investment Bank.

EAST GERMAN CREDIT SYSTEM CONSOLIDATED BALANCE SHEET

(31/12/89 in Bn E German Marks)

Assets		Liabilities	
Credit to the domestic sector	418	Deposits	259
of which: Households	23	of which: Households	176
Enterprises	260	Enterprises	60
Claims on external sector	45	Foreign liabilities	180
Other assets	4	Cash in circulation	17
		Capital in reserves	25
Total	467		467

EC to set up agency for safety of medicines

By Peter Marsh

A CENTRALISED European Community agency for reviewing safety of medicines is due to be established under plans for regulating the EC's £25bn-a-year pharmaceuticals industry after 1992.

The European Medicines Agency would grow over the next few years to have a staff of up to 150, who would be responsible for administering requests from drug companies to sell new products in different member states.

Some European drugs companies fear the new agency might not have enough funds to work effectively and impose control on the government departments in individual countries which are now responsible for drug approvals.

Plans for the new organisation, due to be finalised next month, fit ideas in the drugs industry for a more centralised approach to approvals. The industry believes this could reduce the long registration periods for new products and save companies having to apply for approvals to individual EC governments.

But Dr Trevor Jones, research director at Wellcome, the UK drugs company, said: "As constituted, the agency would be little more than a shop for arranging meetings."

Some US drugs companies already active in Europe also lobbied against the idea of an over-powerful centralised agency similar to the US Food and Drug Administration. They said that such an all-powerful European agency, which would have been close to a one-stop shop for medicines approvals, could give Japanese companies a clear run at the European drugs business.

The new European agency is intended to work closely with existing national drugs-control bodies.

Nato takes the strain to meet the new demands of peace

By David White, Defence Correspondent

UNDER THE slogan "All aboard at Nato for a life-enhancing mission", notices pinned up at North Atlantic Treaty Organisation headquarters in Brussels have been promoting lectures on heart fitness.

With the present pressure of work on diplomats and officials as Nato revises its doctrines and adapts to post-Cold War life, they may need the advice.

Changes in strategy and force structures after the hoped-for treaty with Warsaw Pact countries on conventional arms reductions will be discussed by defence ministers in Brussels this week.

Meeting in the alliance's Defence Planning Committee tomorrow and on Wednesday, they will try to prepare the ground for the London strategy-review summit in July.

The meeting will be preceded by talks today among the European allies.

The ministers are due to discuss a report by Nato military authorities on Soviet capabilities, the expected reduction in the potential threat to the Western alliance and its implications for Nato's defence posture.

In the build-up to the summit, Nato foreign ministers are also due to meet in Scotland on July 7 and 8.

The defence ministers are expected finally to drop their long-standing official target of 3 per cent annual volume increases in defence spending. However, allies will be urged to resist making large unilateral reductions in their forces.

Plans for apportioning among the allies the equipment cuts foreseen in the conventional force talks are believed to be virtually complete. Diplomats at Nato said work on this had been "unexpectedly easy."

The ministers are likely to move further towards decisions on the future of short-range nuclear forces, following the abandonment of Nato plans to pursue the replacement of current ground-to-ground missiles and shells.

The London summit is expected to approve the broad outlines of policy on these tactical arms.

A year after acrimonious wrangling among its members on the short-range nuclear issue, Nato has agreed that negotiations on US and Soviet land-based weapons can start as soon as a conventional forces treaty is signed, without waiting for implementation.

COMPANY NOTICES

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TO HOLDERS OF CONVERTIBLE BONDS

NOTICE OF MEETING

SECOND CONVOCATION

BOARD OF DIRECTORS

CONTINENTAL (BERMUDA) LIMITED

US$250,000,000

Floating Rate Notes due 2006

Foreign Trade Bank Ltd

Notice is hereby given that for the Interest Period 22nd May, 1990, to 22nd August, 1990, a period of 92 days, the Rate of Interest will be 8.5875 per cent per annum. The Interest Amount payable on the Interest Payment Date 22nd August, 1990 will be US$5,550.35 for each Note of US$250,000.

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GADEK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

Notice of Meeting

By Order of the Board
AHMAD SHAHAB BIN HAJI DIN
RIDWAN BIN MUSTAFFA
Secretaries

Kuala Lumpur,
Malaysia.
21st May 1990

NOTES

LEGAL NOTICES

BARFORD STRATHALLAN LIMITED

We, Nigel Vooght & John Martin Iredale of Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG hereby give notice that on 8 May 1990 we were appointed Joint Administrative Receivers of the above named company by Midland Bank Plc under the terms of a debenture dated 9 December 1987 giving the holders a fixed and floating charge over the whole of the assets of the company.

Dated this 11th day of May 1990

N J Vooght
Joint Administrative Receiver

S F LIMITED

Registered number: 2404817
Staffordshire Farmers
Nature of business
Agricultural Merchants
Trade classification: 01
Date of appointment of joint administrative receivers
4 May 1990
Name of person appointing the joint administrative receivers: Co-Operative Bank Plc.
IAN NAPIER CARRUTHERS and JOHN FREDERICK POWELL
Joint Administrative Receivers
(Office holder nos 314 and 240) of Cork Gully 43, Temple Row, Birmingham, B2 5JT.

S F LIMITED

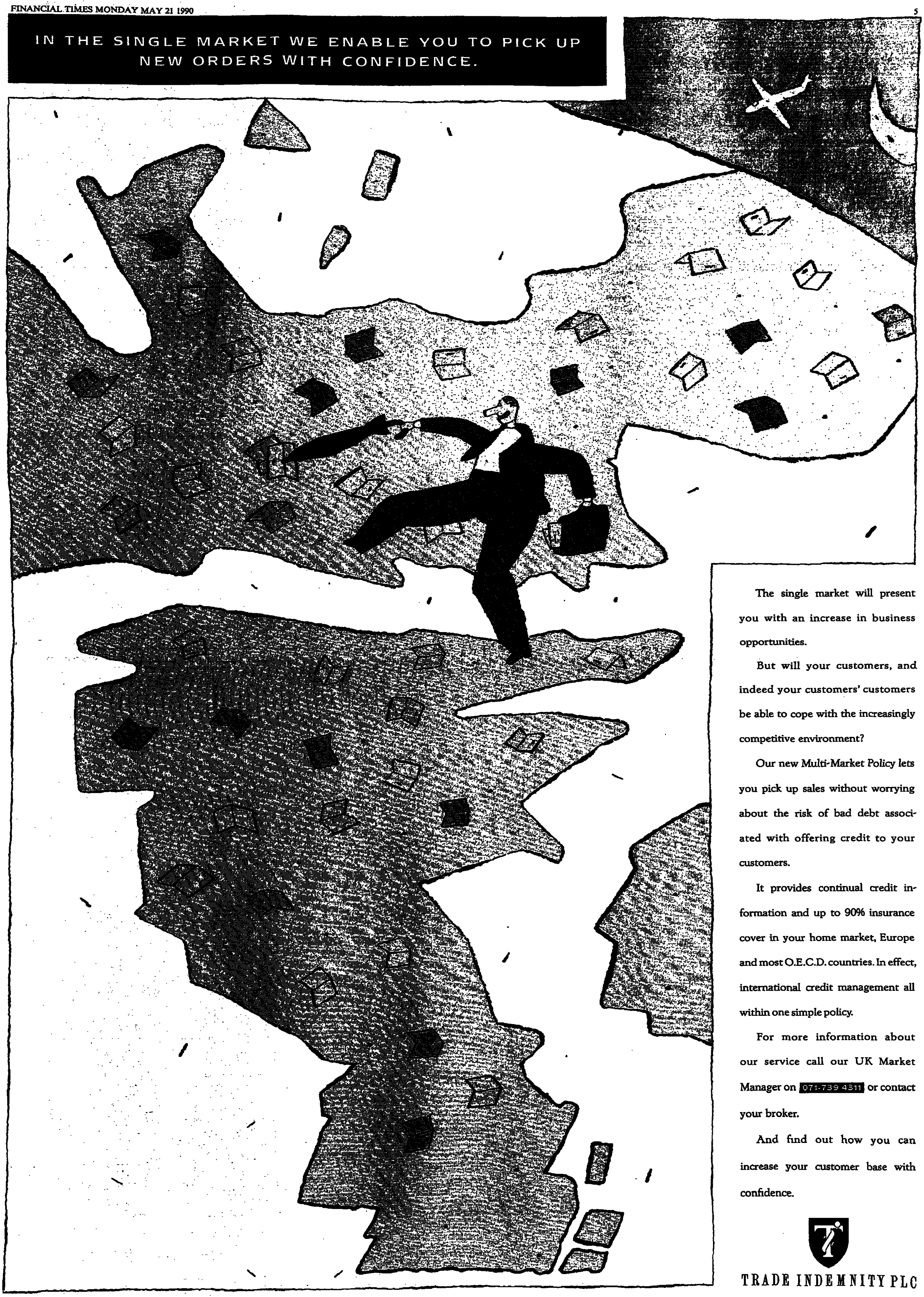
Registered number: 2404817
Trading name:- Staffordshire Farmers
Nature of business: Agricultural Merchants
Trade classification: 01
Date of appointment of joint administrative receivers: 4 May 1990
Name of person appointing the joint administrative receivers: Lloyds Bank Plc.
IAN NAPIER CARRUTHERS and JOHN FREDERICK POWELL
Joint Administrative Receivers
(Office holder nos 314 and 240) of Cork Gully 43 Temple Row Birmingham B2 5JT

PUBLIC NOTICE

MMC INVESTIGATIONS INTO THE SUPPLY OF NEW CARS AND OF NEW CAR PARTS

The Monopolies and Mergers Commission is carrying out a monopoly inquiry into the supply of new motor cars. The Commission will be examining various aspects of the market for the sale of new cars and in particular the distribution systems through manufacturers' franchised dealers, and differences in car prices between the United Kingdom and other European countries.

The Commission are also carrying out a parallel investigation into the supply of new motor car parts. Any person wishing to give information or views on either inquiry should write as soon as possible but not later than 30 June 1990: to The Reference Secretary (Cars and Car Parts Inquiry), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT.


IN THE SINGLE MARKET WE ENABLE YOU TO PICK UP NEW ORDERS WITH CONFIDENCE.
The single market will present you with an increase in business opportunities.
But will your customers, and indeed your customers' customers be able to cope with the increasingly competitive environment?
Our new Multi-Market Policy lets you pick up sales without worrying about the risk of bad debt associated with offering credit to your customers.
It provides continual credit information and up to 90% insurance cover in your home market, Europe and most O.E.C.D. countries. In effect, international credit management all within one simple policy.
For more information about our service call our UK Market Manager on 071-739 4311 or contact your broker.
And find out how you can increase your customer base with confidence.
TRADE INDEMNITY PLC

Taiwan clears path for improved links with China

By Peter Wickenden in Taipei

TAIWAN'S President Lee Teng Hui yesterday announced historic changes in the Nationalist Government's basic policy in order to improve relations with China and implement complete democracy.

In his inaugural speech, Mr Lee said he hoped that the "Period of Mobilisation for the Suppression of the Communist Rebellion" could be officially ended as soon as possible.

Since the Nationalists were driven off mainland China in 1949, they have regarded the victorious Communists as rebels with whom official contact, negotiations or compromise were ruled out under Taipei's "Three No's" policy - no official contact, no negotiations and no compromise.

Starting with the lifting of a ban on travel to China in 1987, Taipei has steadily worked to ease tension across the Taiwan Straits. With flexible interpretation, the "Three No's" have become known as the "Three Maybe's".

They now look set for abolition. If Peking implements democracy and a free economic system, renounces the use of force against Taiwan and does not obstruct Taiwan's pursuit of an independent foreign policy, then "channels of communication" could be established, Mr Lee declared.

He proposed the complete opening up of academic, cultural, economic, trade, scientific and technological exchange as a foundation for mutual respect, peace and prosperity. "We hope then, when conditions are ripe, to discuss the matter of reunification," he said.

Meanwhile, Taiwan will not pull its government organisations out of Hong Kong and Macao.

Mr Lee's remarks are a far cry from the rhetoric Taipei has directed at Peking in the past. This time, the emphasis was on co-operation and unification, and there was no explicit mention at all of Taipei recovering control of the Chinese mainland.

Mr Lee also announced changes in the constitution to allow the restructuring of central and local government, and the creation of a modern legal code within two years.

About 10,000 people yesterday marched through Taipei, contending that Mr Lee had dealt a blow to democracy by nominating the nation's only four-star general as premier.

TAIWAN's economy will grow by a real 7.48 per cent in the first half of 1991 compared to the first half of 1990, against a revised forecast of 7.23 per cent growth for all of 1990 and 7.18 per cent in 1989, Taipei's Bureau of Statistics said, Reuter reports from Taipei.

This year's growth rate is revised down from a forecast of 7.27 per cent made in February. The bureau predicts gross national product per head will reach $8,159 (£5,099) this year, against $7,509 in 1989. The bureau said export of merchandise and services would grow by a real 2.54 per cent this year with imports up by 8.36 per cent.

Taiwan's surplus in trade of merchandise and services would fall 23 per cent to $9.3bn, a downward revision from $10.8bn, forecast in February.

Iran to boycott Haj again

IRAN said yesterday its pilgrims would stay away from the annual Moslem pilgrimage (Haj) to Mecca for the third successive year because of sharp differences with Saudi Arabia, Reuter reports from Nicosia.

Tehran's Foreign Ministry said Iran had direct and indirect contacts with the Saudi authorities but all efforts to resolve differences between the two Moslem states had failed.

Iran has boycotted the Haj since 1987 when more than 400 people, mainly Iranians, were killed in clashes with security forces after anti-Israel and anti-Western demonstrations.

S Korean students clash with riot police

By John Ridding in Kwangju

ABOUT 10,000 South Korean students and dissidents fought with riot police in the south-western city of Kwangju yesterday.

The clashes were the worst in a three-day series of protests marking the tenth anniversary of a bloody suppression of a pro-democracy uprising.

Earlier in the day, Chondaehyop, the radical national student organisation, vowed to avenge the death of a student who died after jumping from a train to avoid being caught by riot police.

However, yesterday's unrest was confined to Kwangju. A weekend rally by Chondaehyop, attended by more than 30,000 students, was relatively peaceful, while a large police presence in the city centre prevented a planned combined demonstration by students, workers and dissidents.

Further clashes are expected in Kwangju, and the funeral on Wednesday of Shin Jang Ho, the 21-year-old student who died on Saturday, is likely to provide a focus for protests.

But observers said they expected the situation in the city to return to normal before the weekend and that the scale of unrest in Kwangju was less than expected.

Widespread unrest had been forecast as students and dissident groups converged to commemorate the suppression of the city's 1980 uprising, in which more than 200 people were killed.

Deng 'still has big role in China'

VETERAN Chinese leader Deng Xiaoping still plays a major part in Chinese politics, China's state television reported yesterday, breaking official silence on the 85-year-old leader's role since his formal retirement in March, Reuter reports from Peking.

"His policies will continue to play a guiding role in China's socialist construction," President Yang Shangkun was quoted as saying.

Quebec stands by for its hour to strike

Canadians wonder if sovereignty-association is at hand, writes **Bernard Simon**

TEN years ago yesterday, 5,000 despondent Quebec nationalists gathered in a Montreal arena to hear their exhausted leader René Lévesque concede that they would have to wait a little longer to fulfil their dream of *un Quebec libre*.

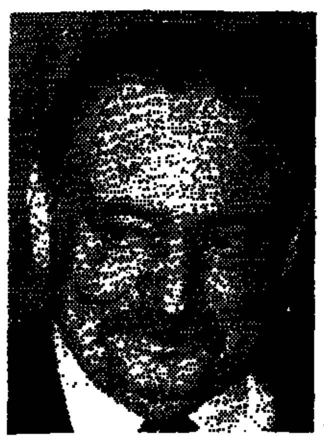
Having soundly lost a referendum on whether to pursue his brand of semi-independence from Canada, known as sovereignty-association, the best the charismatic Parti Quebecois (PQ) leader could promise at the end of his speech was: *à la prochaine - until next time.*

A decade later, Quebeckers and other Canadians are wondering whether that time is at hand.

One opinion poll after another points to a surge in separatist sentiment among Quebeckers, and the air in Montreal and Quebec City is thick with talk of how a newly-assertive and confident Quebec could manage quite well without Ottawa and the rest of Canada. The surge in nationalism has been strong enough to persuade economists at National Bank of Canada, the biggest Quebec-based bank, to include an independence scenario in their latest forecast for senior management.

"We've shown we can run a business," says the Franco-Canadian president of one of Montreal's biggest companies. "A lot of us now feel that we can also run a country."

Mr Jacques Parizeau, Quebec's finance minister in 1980 and now leader of the PQ in opposition, asserts that there is



Parizeau: confident

a wave that seems to have risen in the past four to five months. Mr Parizeau, who has a doctorate from the London School of Economics and speaks perfect idiomatic English, is confident that a more mature separatist movement with a broader base will soon accomplish what zeal failed to do in 1980.

In particular, Mr Parizeau points to the more assertive Quebec business community. A number of people were prey in the past to the argument that Quebec was going to get slaughtered economically; now they are impressed by the opposite argument from business people who say: "We may be in a position to do it. Maybe we can."

Despite the opinion polls and Mr Parizeau's confidence, it is by no means certain that the momentum will be strong enough to propel Quebec towards a form of independence in the near future, or that the PQ would be the main beneficiary.

A more likely outcome of the present turmoil may be less dramatic: another slight loosening of the fragile Canadian federation, with the split for which the separatists yearn postponed yet again, for a few years or perhaps until well into the 21st century.

Even Mr Parizeau acknowledges that the mood among separatists in the province these days may not be as spectacularly sparkling as it was at the height of the PQ's popularity in the 1970s.

For many of Quebec's 6.5m people, the present wave of nationalism appears to be a safety valve to vent a host of frustrations against Ottawa and English Canada, rather than the emotional crusade for independence which reached its climax in the 1980 referendum.

Resentment has been fanned by Canada's latest identity crisis, in the form of an intense debate over the intricate constitutional accord reached at, and named after, Meech Lake, north of Ottawa.

The accord gives Quebec formal recognition as a "distinct society", plus constitutional power to preserve and promote that uniqueness. It also meets four other conditions - including wider powers over immigration and Supreme Court appointments - which Quebec set as its precondition for signing the 1982 Canadian constitution.

Bourassa: hard line

Meech Lake is on a knife's edge as a June 23 deadline nears for its ratification by the three provinces - Manitoba, Newfoundland and New Brunswick - which have so far refused to accept it.

Mr Brian Mulroney, Canada's Prime Minister, and other Meech Lake supporters are trying to stitch together a delicately balanced companion resolution which would satisfy the accord's critics without compromising Quebec's demand that the accord be signed unaltered by all 10 provinces.

A formula to save Meech Lake - still a real possibility - would take some of the wind out of the separatists' sails. Quebec's canny Liberal premier, Mr Robert Bourassa, is unlikely to agree to any compromise that would expose his flank to the PQ.

The collapse of the accord would bring uncertainty. Meech Lake has come to be regarded by Quebeckers as a litmus test of their acceptance by English Canada. Its rejection would strain relations between Quebec and the rest of the country, forcing Mr Bourassa to take a harder line in any future constitutional negotiations.

One of Mr Bourassa's ministers said last week that Quebec will seek "a substantial reorganisation" of its links with the rest of Canada, but one falling short of true independence. The Bourassa government appears to be resuscitating a concept of two nations, namely Quebec and English Canada, working together as partners in a federal system even weaker than the present Canadian model.

In the event of Meech Lake collapsing, the PQ is likely to press Mr Bourassa to call an early election. "If there is that idea of sovereignty, we've got to try to help him commit himself," Mr Parizeau says.

But having won handsomely at the polls little more than six months ago, the Bourassa government is unlikely to see much advantage in an early poll. The full extent of Mr Bourassa's willingness to loosen Quebec's ties with Ottawa may not be apparent much before the next election is due in 1993 or 1994.

And the main beneficiary then of whatever separatist sentiment prevails could be the cool-headed and agile Mr Bourassa rather than the more emotional, inflexible separatists.

Mubarak could face fresh polls after court ruling

By Tony Walker in Cairo

EGYPT has been plunged into a constitutional crisis after a court ruling at the weekend that the present parliament was elected unconstitutionally at the last poll in 1987.

President Hosni Mubarak would seem to have little choice but to call fresh elections.

But observers expect him to delay as long as possible in the light of fresh signs of a resurgence of Moslem extremism and unhappiness over a recent round of steep price increases.

The Supreme Constitutional Court ruled that the 1986 electoral law unfairly discriminates against independent candidates under the party list system, making it very difficult for independents to gain election.

The court found, however, that legislation passed by the parliament which it has found to be unconstitutional was in fact valid.

The decision is certain to perplex legal purists.

The court set June 2 as the cut-off point for new legislation. This will give the parliament time to approve the 1990-91 budget.

Mr Mubarak is certain to come under strong pressure to call elections for a parliament heavily dominated by his own ruling National Democratic Party.

In 1987, the NDP won 350 of the parliament's 448 seats in an election marked by allegations of widespread ballot-rigging.

The largest single opposition group is the banned but tolerated Moslem Brotherhood which is permitted to contest elections as part of a three-way alliance with the Socialist Labour Party and the Liberals.

Mr Ahmed Nasser, a representative of the Wafd opposition party, said there "was no alternative to new elections - the parliament becomes unconstitutional as soon as the ruling is published in the official gazette."

The court, in its ruling, said that "when the People's Assembly was elected according to a legal text that has been determined to be unconstitutional. . . the formation of the assembly by necessity is null and void. . ."

The court ruling is awkward for the regime, coming as it does hard on the heels of demands for democratic change in Eastern Europe and elsewhere in the Arab world.

Mr Mubarak is certain to face strong calls for genuinely free and fair elections similar to those held recently in Jordan.

Such a process would almost certainly encourage a more spirited election campaign than the rather desultory affairs of recent years.

In these, an overwhelming victory for the ruling party was always a foregone conclusion.

Electric supply industry facing market challenge

By David Thomas, Resources Editor

THE new structure in the electricity supply industry will face its first big challenge today when the industry's regulator decides whether to raise one of the main curbs on competition in the new market.

National Power and PowerGen, the two new electricity generators, have asked for the limit prohibiting them from jointly capturing more than 15 per cent of demand in any of the 12 area supply companies of England and Wales to be increased.

Professor Stephen Littlechild, director general of the Office of Electricity Regulation, is expected to deliver his ruling today. (Whatever his decision, it is almost bound to anger sections of the industry.

National Power has been active in offering cut-price supply contracts to industrial users with maximum demand of more than 1 MW – the only customers at present able to shop around for competitive supplies.

Area company chairmen are bracing themselves for a decision by Prof Littlechild to raise the 15 per cent limit.

Area companies are keen to point out that loss of more supply business will not greatly affect their profitability, since most profits are made from local transmission networks, in which they retain a monopoly.

Nevertheless, they are worried that further losses of supply contracts would hinder their ability to market to large customers.

Some area chairmen have also told the government authorities of their concern that the generators may be offering contracts below a fair market price. However, they feel inhibited about making a formal complaint to the regulator along these lines since it could potentially disrupt the entire privatisation.

On the other hand, if Prof Littlechild refuses to raise the limit, large industrial customers prevented from shopping around for competitive supplies will be angered.

BT releases figures on billing inquiries

By Hugo Dixon

BRITISH Telecom receives about 500,000 inquiries each year from customers about their bills. But it says in a report today that the inquiries do not all count as complaints since the vast majority are dealt with in a single phone call.

The figures on billing inquiries have been released as part of BT's regular six-monthly report on the quality of the phone service. The report showed that the quality of the basic network continued to improve with just over 1 per cent of calls failing to get through because of network faults. Over the six months to the end of March, BT also became more efficient in answering calls to the operator and directory inquiries, with over 85 per cent answered within 15 seconds.

However, BT's speed in repairing faulty residential lines deteriorated sharply during the period, a fact which the company blamed on storms and floods early this year.

The Telecommunications Users Association said it was receiving more complaints about faulty bills than ever before and that small customers were not getting a good repair service, although it gave BT credit for improvements that it had made to other aspects of its service.

The proportion of faulty residential lines repaired within nine working hours declined from 76 per cent to 69 per cent in the six month period. Business lines, to which BT gives priority, fared better with the number of faults repaired in five working hours increasing from 76 per cent to 79 per cent.

A further 4,000 pay-phones were installed during the past year, bringing the total to over 90,000. BT said 95 per cent were in full working order.

BT also announced that small business customers would be given an individual contact within the company to deal with inquiries. About 200,000 larger businesses have such individual contacts.

Wellcome fears delay for wider use of AIDS drug

By Peter Marsh

WELLCOME, the UK pharmaceuticals company, has suffered a possible setback to early approval in western Europe for wider use of Retrovir, its anti-AIDS drug.

The European Commission, in a rarely-used procedure, has decided to handle centrally the applications which Wellcome made separately to the 12 individual European Community nations.

Dr Trevor Jones, Wellcome's director of research, said the decision could delay licensing of the drug for wider use in specific nations by several months.

Wellcome wants an early European decision on whether Retrovir, the only drug licensed to treat AIDS, can be prescribed to people who carry the HIV virus but do not have the full AIDS symptoms.

A committee of experts in Brussels will review the data connected with the Wellcome application, probably over the next two months.

The committee's opinion will then be circulated to the 12 member states, which will take this into account when judging the matter.

In March, the US Food and Drug Administration (FDA) allowed doctors to prescribe the product for some groups of HIV carriers who do not have the full-scale disease.

At present, drug is being taken by an estimated 80,000 people worldwide.

There is no known cure for AIDS.

Some scientists, especially in the US, think many HIV carriers could benefit from taking Retrovir at an early stage. The drug often slows the course of the illness and reduces some symptoms.

In Europe, however, there is less general acceptance of the wisdom of this course. Some physicians and AIDS sufferers say prolonged use of the drug can produce toxic effects and lead to new strains of Retrovir-resistant viruses.

The pleasure dome that still awaits a roof

Richard Donkin reports on Battersea power station which was to have opened today as a leisure centre

BATTERSEA power station, one of London's best-known land*marks*, was *to have* opened today as a pleasure dome – a symbol of the hope and ambition of its owner, Mr John Broome. But the power station remains semi-derelict – without a roof and one wall – and its fate is as uncertain as ever.

Mr Broome had invited Mrs Margaret Thatcher, the Prime Minister, to an official opening of the new centre which he predicted would be completed by 2.30pm today. Instead, local demonstrators against the scheme will gather there to perform a mock opening.

Only two years ago Mr Broome's plans were hailed as potentially one of the glittering prizes of the Thatcher revolution.

"We wanted to draw attention to the fact that the thing was supposed to be completed *whereas it is a derelict* eyesore," said Mr Brian Barnes chairman of the Battersea Power Station community group which organised today's mock opening ceremony.

The community group is to submit its own plans for a sport and leisure development on the site.

Another project to develop the building into a mosque has been talked about, although no plans have materialised.

Mr Broome's private company, Alton Group, has submitted an *application* with *Mr* Paul Bloomfield's private Dutch-registered company, ICA Holdings, to develop a 52-acre site, retaining the original leisure plans for the power station but adding two 22-floor hotels, 1.25m sq ft of offices space, 64,000 sq ft of shops and 750,000 sq ft of conference exhibition space.

The outline planning application to Wandsworth Council takes in two parcels of land that are not in Mr Broome's ownership (he has about 31 acres). The largest tract of about 14 acres at Battersea Wharf belongs to Parc Securities, part of Mr Werner Rey's Omni Holdings group. Another part of the proposed development belongs to British Rail.

The plan has yet to come before Wandsworth planning committee. Planners are awaiting a report on increased traffic expected to be generated by the proposals.

The prospects of the plan succeeding, even if given permission, depend on whether anyone will come up with the rest of the financing, probably around £200m, needed to complete the plan.

Security Pacific, the bank which organised a syndicate for the majority of the financing, was able to recoup some of the debts on Battersea by forcing the sale of Mr Broome's *Alton Towers theme park to* Pearson, the group that publishes the Financial Times, for £60m in March.

The bank had covered itself initially by arranging cross guarantees on Battersea from the Alton Group. It also raised a £35m loan for Alton Towers which had to be paid back by the time of the sale. Pearson only wanted assets and refused to take on debt. Mr Broome has been left with about £40m of debt owed to Security Pacific and about £15m owed to McAlpine, the builders, which stopped work on the power station more than a year ago.

Mr David Cooper, Mr Broome's lawyer said that if the new planning application were to be rejected it would leave the company with four options: to do nothing, to apply for delisting pending demolition, to apply for listed building consent to demolish the power station or to appeal against the planning refusal. The company, he said, would be most likely to apply for delisting which would take another two years.

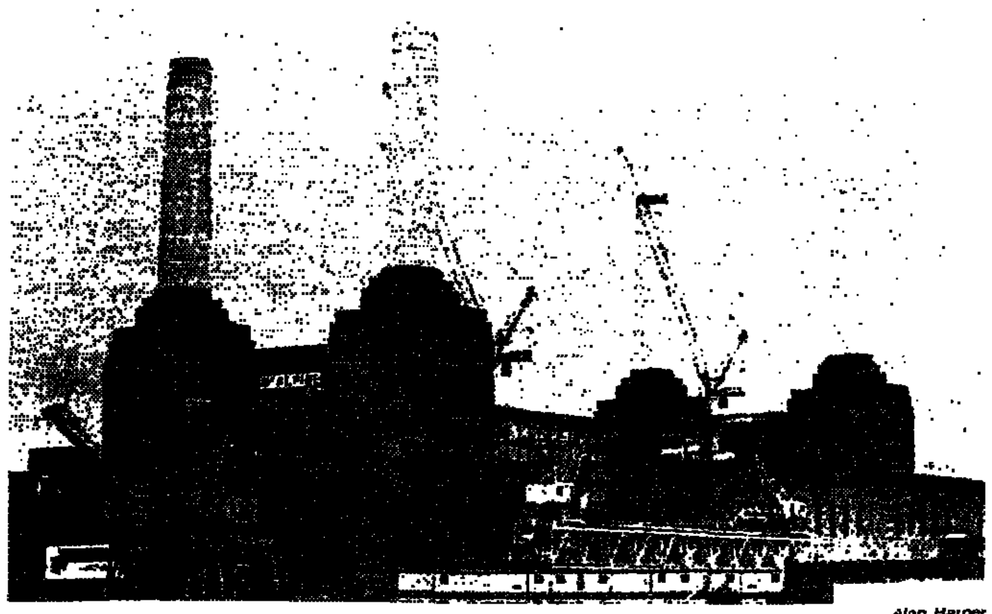
He said that Mr Broome would not entertain another option to hand the site over to another developer while keeping the surrounding land. City Industrial, a private company, headed by Mr Sam Morris has drawn up proposals for conversion of the building into a trade and exhibition centre.

However, according to Mr Cooper, Mr Broome will not relinquish the site. "John is not prepared to sell because this is his baby. He did this project because he believed in it. He is not the sort of bloke to run away from it now just because the going has got difficult.

"He is committed to Wandsworth, Mrs T, the whole world, to finish it off, so why should he sell it to Sam Morris?"

The Prime Minister herself trumpeted Mr Broome as a man of "enterprise and vision" when she launched the project in June 1988. Mr Broome was seen as one of her champion entrepreneurs.

His vision of a pleasure dome, complete with hologram, oceanarium and other Disney-type attractions, remains intact. Whether it will ever materialise is open to question.



Alan Harper

Cranes hover over a semi-derelict Battersea power station, its fate still uncertain

UK NEWS

Tory attack on Government over London traffic

By Richard Tomkins, Transport Correspondent

CONSERVATIVE councils in London will today deliver a strongly-worded attack on the Government for its reluctance to adopt road pricing as the solution to the capital's traffic problems.

They will accuse the Government of adopting a "head in the sand" attitude towards road pricing, saying a "drastic solution" is needed to prevent congestion bringing the capital to a halt.

Road pricing is a mechanism for charging drivers for using roads, either through the issue of licences to enter certain areas or through electronic monitoring.

A growing body of opinion in Britain sees road pricing as the best solution to the difficulty. Organisations supporting such a scheme include the Confederation of British Industry, the London Chamber of Commerce and Industry, the Royal Town Planning Institute and London Regional Transport.

Transport ministers, however, have ruled out the introduction of road pricing in the foreseeable future. The Department of Transport sees it as economically desirable but impractical.

Today's call comes from the Conservative-led London Boroughs Association. The Labour-led Association of Local Authorities also favours road pricing.

The LBA says congestion is costing businesses in London millions of pounds a year and is threatening the capital's future as a prosperous and competitive city.

Large businesses which have put detailed figures on the annual cost of London congestion include Royal Mail Letters (£10.4m), J. Sainsbury (£3.4m) and Marks and Spencer (£2m).

"Road pricing is technically feasible, can offer very good value for money and may represent the only sure way of alleviating London's chronic traffic congestion, yet still the Government refuses to give it serious consideration," the LBA says.

Road Pricing for London, London Boroughs Association, 23 Buckingham Gate, London SW1E 6LB, £5.

The high price of getting to grips with gridlock

Richard Tomkins on a remedy for the congestion nightmare that costs businesses millions every year

THE word "gridlock" has entered the vocabulary of Londoners in the past year, to describe the feared total paralysis of the capital's traffic as a result of growing congestion.

The idea of road pricing has risen to the top of the agenda as a means of averting the crisis.

It is not just the risk of gridlock that worries the transport planners.

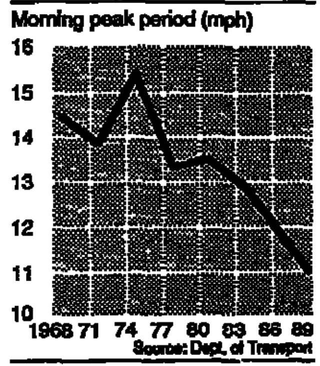
Since 1974, average traffic speeds in London's morning peak have fallen from 15 mph to 11 mph in the inner area, representing a 27 per cent increase in journey times.

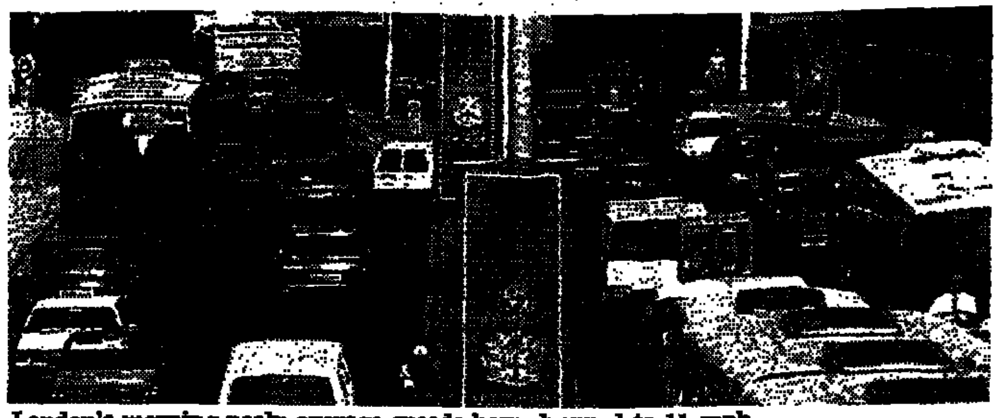
Businesses in the capital are running up extra costs amounting to millions of pounds a year because they need bigger vehicle fleets, more staff and higher stock levels than they would if traffic flowed more freely.

The aim of road pricing is to reduce congestion by encouraging more discriminating use of the roads – for example, by cutting out unnecessary journeys or encouraging more people on to public transport.

In London, this would also offer the opportunity to turn the capital's most seriously under-used public transport asset – its bus service – into a faster and potentially profitable contributor to the city's economic life.

Inner London traffic speeds





London's morning peak: average speeds have dropped to 11 mph

But although the notion of road pricing is superficially attractive, it runs into formidable practical objections.

The simplest system is for drivers to pay an annual fee for a licence which gives them the right to enter an area during busy times.

This system, however, fails to differentiate between the frequent visitor driving right to the centre of the designated area and the occasional visitor driving to a destination just over the border.

It also runs the risk of creating parking problems around the perimeter and produces traffic jams caused by people trying to by-pass the designated area.

A more sophisticated method of road pricing is to employ electronic systems – either a meter within the vehicle triggered by a roadside device, or a central charging computer triggered by an electronic number plate.

Electronic systems overcome some of the objections to licensing because the triggering devices can be spread across the city in such a way that more charges are clocked up as the mileage increases. Time of day and type of vehicle can also be taken into account.

But the cost of installing these devices would be immense. They would also be prone to breakdown and tampering, with the consequence that few cities in the world have dared try it. Lagos and Athens have experimented with a crude system of restraint by excluding cars with odd or even registration numbers on alternate days, but this results in the rich buying spare cars and the poor spare number plates.

Hong Kong introduced a sophisticated form of road pricing in 1985 with a pilot project involving 2,600 vehicles. Electronic number plates were read by an inductive loop in the road and a central computer billed drivers monthly.

The technology worked and peak-hour car traffic fell by up to 24 per cent. But because the system recorded vehicles' journeys, motorists complained that police and suspicious spouses could trace their movements, and the experiment was dropped amid noisy opposition.

That leaves Singapore as the world's only city with a comprehensive road pricing system. The Singapore scheme has been highly successful, reducing traffic by 44 per cent and costing little to run. But Singapore is much smaller than London.

The idea of bringing road pricing to a city as large as London introduces particular difficulties. Where, for example, would the boundary be drawn? What about car owners living within the designated area? How would visitors from the regions or overseas get in?

Bigger than all these problems is the question of enforcement. An estimated 300,000 parking offences are committed every weekday in London, of which only a small minority are reported and an even smaller fraction successfully brought to book.

The capital has too many entry points for physical checking of licences. Ministers at the Department of Transport do not rule out road pricing for the long-term, but say the technology does not yet exist for an acceptable system.

Mr Robert Atkins, the Minister for Roads and Traffic, told an Institution of Civil Engineers seminar last week: "To date, there seems to be evidence that people may be in favour of the effects of road pricing, but not with the means by which it is achieved – something we have seen already with the community charge."

The potential unpopularity of road pricing, would seem to rule out its introduction in London at least until after the next general election.

Survey shows small businesses in receivership at record level

By John Authers

THE NUMBER of small businesses falling into the hands of the receiver reached a record level in the first three months of 1990, according to a survey of 27 accountancy firms published by the Labour Party today.

In the first quarter of 1990, 990 companies went into receivership with the accountants surveyed, compared with 347 in the first three months of last year. This is more than the number for the whole of 1979, which was only 805.

Mr Gordon Brown, Labour's spokesman on trade and industry, said: "It's a dramatic increase and even if the trend does not continue we are seeing something quite substantial. People are being hit and hit hard by the high interest rates."

In spite of these findings, which are also in line with research done by Trade Indemnity, small businesses appear to be confident about their own future, according to a report published today by Investors in Industry (3i), the venture capital group owned by the Bank of England and the clearing banks. 3i found that 60 per cent anticipate increased turnover in the next quarter, with 35 per cent planning new investment.

But the outlook among small businesses on the economy seems to be more in line with the figures on receiverships. 3i's index of optimism about the UK economy in general (where the January 1988 level is set at 100) actually dropped below zero for the first time.

This is in line with a recent survey published by the Institute of Directors which also found directors growing more optimistic about the future for their own business, but pessimistic about the UK economy.

OFT disclosure plan criticised

By Eric Short

A PROTEST about Office of Fair Trading proposals on disclosure is being sent to the Government by the British Insurance & Investment Brokers' Association (BIIBA).

It says the choice available to the public in selecting life policies will be reduced to reading comparative articles in the press if the proposals put forward by Sir Gordon Borrie, Director General of Fair Trading are adopted.

It says the choice available through using an independent financial adviser will disappear as advisers find their trading and competitive positions are no longer commercially viable because of OFT demands.

The current disclosure rules produced by the Securities and Investments Board, the overall financial services regulatory body, were drawn up after four years of investigation, discussion and consultation with the life assurance industry.

OFT last month claimed that those rules were anti-competitive and wanted all disclosure to be in cash terms at the time of sale. Disclosure in that form would enable investors to compare easily different contracts and help negotiation of commission rebating, OFT says.

Mr John Hackett, director general of the BIIBA, said that if the OFT proposals were accepted, independent advisers would have to give the most valuable part of their service – independent expert advice – free of charge. They would then have to provide details of their trading income in cash terms for negotiation before clients undertook to proceed.

BIIBA argues that under such conditions, independent advisers would be forced either to switch to a fee-based system where clients paid for advice, or to be tied to just one life company, without any commission disclosure requirement.

The OFT is accused by BIIBA of failure to recognise the high level of competition that already exists between independent advisers, between independent advisers and other life assurance intermediaries and between life assurance and other savings media.

BIIBA concludes that the recent rapid changes in the life assurance industry have resulted in the viability of the independent marketing sector being finely balanced. Any upset to this balance at present would jeopardise the future of independent financial advice. The approach to change, it says, must be evolutionary.

APPOINTMENTS

Changes at Heron Corporation

■ HERON CORPORATION has appointed to the main board Mr Richard C. Morris, managing director of Heronfreight, a post he retains. Mr Peter Reynolds and Mr Peter Agg have retired from the Heron board. Mr Reynolds, who was chairman and managing director of Heron Motor Group, will continue to work with the Ronson Charitable Foundation. Mr Agg, a non-executive director, continues with his own Trojan Lambretta Group.

■ RANK XEROX has appointed Mr Michael Smith as director of European research,technology and development. He was a senior vice president in the development and manufacturing division.

■ Mr Ted Richardson, formerly director of DATAQUEST's European telecommunications industry service, has been appointed vice president and director of the company's operations in the UK.

■ Mr Timothy R. Cutler has been appointed as a forestry commissioner and director general of the FORESTRY COMMISSION from September 17, succeeding Mr Gwyn Francis who is retiring. Mr Cutler was secretary of forestry, the chief executive post in the New Zealand Ministry of Forestry.

■ Following the acquisition of ARC by HANSON, Mr A. Patrick Hall has ben appointed managing director of ARC Properties in addition to his post as managing director, ARC Building. Mr Michael A. Wilkins joins the properties board as commercial director.

■ YULE CATTO & CO has appointed Mr Jan Michiel Hessels as a non-executive director. He is vice president and chief executive designate of the managing board of Vendex International.

■ Mr Kevin McGovern has been appointed marketing services director of the ROSEHAUGH GROUP. He was a development executive.

■ Mr Mike Hudgell has been appointed director for market development at COGNOS. He was with Digital UK.

■ TI GROUP has appointed Mr Miles Vere-Hodge to the new post of director of corporate finance, responsible for the worldwide co-ordination of taxation and treasury matters.

■ Mr Dick Withers Green, a director of BZW INVESTMENT MANAGEMENT, has been appointed vice chairman responsible for overseeing the company's commitment to managing the superannuation fund assets of local authorities.

■ UNIGROUP has appointed Mr Jeremy Owen as acting chief executive, following the resignation of Mr James Malthouse in accordance with the arrangements relating to the recent subscription for shares by Antah Overseas Holdings Sdn Bhd.

■ CAPEL-CURE MYERS CAPITAL MANAGEMENT has appointed Mr John Loudon as a non-executive director. He is chairman of Warrior International and on the boards of Heineken, SHV Holdings, Derby Trust and Jamestown Investments.

■ Mr Ken Jones has become sales and marketing director of SPONG RETAIL SYSTEMS, manufacturers of specialist merchandising systems. He joins from Apeils, where he was sales and marketing director.

■ COCA-COLA & SCHWEPPES BEVERAGES has appointed Mr Paul Donovan as marketing director. He was previously marketing controller with responsibility for the home trade.

■ Mr Raymond Turnbull, formerly head of trading at Manufacturers Hanover, has been made an assistant director and chief dealer on the capital markets desk at CHARTERED WESTLB.

■ Mr Nick Whitney, former managing director of Citicorp Scrimgeour Vickers' UK equity operation, is to join SOCIETE GENERALE STRAUSS TURNBULL SECURITIES to set up a quantitative analysis and strategy unit.

PUBLIC WORKS LOAN BOARD RATES

Effective May 16

Years	Quota loans repaid by EIP†	Quota loans repaid A††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid A††	Non-quota loans A* repaid at maturity§
1			14⅝			15⅜
Over 1 up to 2	14½	14½	14	15½	15½	14¾
Over 2 up to 3	14⅛	14⅛	13⅝	15⅛	15⅛	14⅜
Over 3 up to 4	13⅞	13¾	13⅞	14⅞	14¾	14⅛
Over 4 up to 5	13¾	13⅝	13⅛	14¾	14⅝	13⅞
Over 5 up to 6	13½	13⅜	13	14	13⅞	13½
Over 6 up to 7	13⅜	13¼	13	13⅞	13¾	13½
Over 7 up to 8	13¼	13⅛	12⅞	13¾	13⅝	13⅜
Over 8 up to 9	13¼	13⅛	12¾	13¾	13⅝	13¼
Over 9 up to 10	13⅛	13	12⅝	13⅝	13½	13⅛
Over 10 up to 15	12⅞	12⅝	12	13⅜	13⅛	12½
Over 15 up to 25	12¼	11¾	11½	12¾	12¼	12
Over 25	11⅝	11⅜	11⅜	12⅛	11⅞	11⅞

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Rival Channel rail link detailed

By Richard Tomkins, Transport Correspondent

OVE ARUP, the engineering consultancy, has released detailed plans of its proposals for a £4bn Channel tunnel rail link to rival the European Rail Link (ERL) rail scheme being considered by the Government.

The route – first proposed in outline last November – would differ from Eurorail's by carrying freight as well as passenger traffic and passing through Stratford, East London, on its way to King's Cross.

Ove Arup believes that a combination of development gains from land adjoining the route and soft loans from the European Community could enable the link to be built without UK Government subsidy.

Publication of its proposals comes at a sensitive time for European Rail Link because *ERL's plan for a £3bn* passenger-only line is conditional on an injection of up to £400m in public funds.

ERL – a joint venture between British Rail, Trafalgar House and BICC – argues that a subsidy is justifiable because it is also making space on the line for Network SouthEast's commuter services.

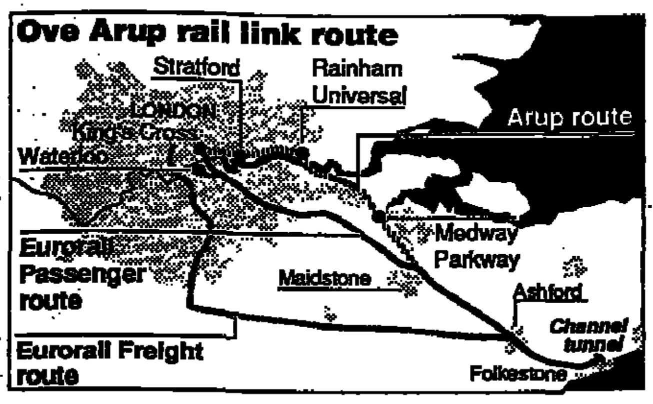
British Rail would provide the subsidy but its status as a nationalised industry means that the Treasury's approval is needed before the plan can go ahead.

ERL's line is also up against legislative difficulties: a private Bill authorising its construction would run the risk of Parliamentary defeat. The Government is reluctant to back the line's construction with a hybrid Bill because this would mean associating itself with an intensely controversial issue in the run-up to a general election. Ove Arup believes its scheme is less controversial than British Rail's because it avoids running through densely populated parts of south London.

The route is the same as British Rail's from the Channel to Hollingbourne in Kent. It then swings north under the Medway towns before crossing the Thames at Dartford and approaching London from the east, running underground from Stratford to King's Cross.

The four-track lines would be built to Continental gauge so that through-running of freight traffic between the rest of Britain and the Continent would become possible.

European Rail Link said yesterday that Ove Arup's plan was flawed. The case for a Stratford terminal had still not been made; a four-track line could not be financially justified; the route in any case contained two-track bottlenecks; and 44 per cent of the line was tunnelled, creating uncertainties arising from geology.



Pollution fight seen as threat to coal

By Emma Tucker

MEASURES TO combat greenhouse gas emissions threaten to reduce world trade in coal used for power generation by up to 125m tonnes by the year 2000, Wharton Econometric Forecasting Associates says in a report today.

The report by the WEFA group, the London based economic analysts, also calculates that a "green tax" on carbon emission in Britain would put 1.3p on the cost of 1kW of electricity and 15.7p on a gallon of petrol.

To combat competition from natural gas, the coal industry must support development of clean coal technology, says the report.

Coal burning is one of the main producers of two greenhouse gases, carbon dioxide and nitrous oxides, and is also responsible for some leakage of methane.

The report said that following confidence in the industry resulting from the oil crises of the 1970s and the problems of the nuclear industry in the 1980s, the coal industry was waking up to the threat to its prospects posed by new fears for the environment.

The report concluded that while coal is not the leading CO polluter – transport fuels pose a greater threat – of the environment, coal looked set to suffer most as coal-burning power stations presented an easy target for environmentalists.

Water industry fears over Labour's plans subside

Richard Evans on the companies' protective moves

WATER INDUSTRY leaders believe that an incoming Labour government would be unable to control the activities of the recently privatised companies, as the party has threatened, without introducing primary legislation.

The current Water Act, which preceded last year's flotation of the 10 former regional water authorities in England and Wales, has been combed by lawyers and financial experts to see if it could be used to alter the priorities of the water industry, as proposed by Labour leaders. The industry's advisers are now convinced it could not.

There was alarm within the industry when Mrs Ann Taylor, Labour's spokesman on water, explained party strategy at a Financial Times conference in late March. Water shares wobbled after she said that a Labour government would instruct the Director General of Water Services, the economic regulator, to ensure that the industry acted in favour of the customer rather than the shareholder.

Mrs Taylor said a return to public ownership would be a high priority, but probably not an early option because of the amount of legislation an incoming Labour administration would want to introduce. As an interim measure, the Director General would be instructed to intervene to force through changes.

Ann Taylor: her speech worried the water industry

But a confidential assessment made for the industry and separate research by individual companies suggest that a Labour environment secretary would have very limited powers to influence water company operations and thus attitudes towards shareholders.

Labour's proposals, which could be amplified in the policy statement to be published on Thursday, are thought to conflict directly with the primary legal duty of the Director General. This duty is to ensure that companies can afford to carry out their functions properly, and a government minister has no power to overrule it.

According to one industry legal expert: "This duty takes precedence over secondary duties, like protecting the interests of customers. It would, therefore, be very difficult for the Director General to justify reducing prices to the extent that the companies earned no return on their equity capital, as Ann Taylor has proposed."

Even if the Director General were to follow the line proposed, company licences spell out clear constraints on his ability to reduce prices, especially in the period up to April 1995 when the first price review is due. If he ignored these, the companies would have a good case to take to the Monopolies and Mergers Commission or ultimately to the courts.

The constitutional scheme of regulation set up by the Water Act is designed to preserve the Director General's independence. A secretary of state may give the Director General broad directions but has no power to tell him how to do his job. The decision remains that of the Director General.

Rising imports hit struggling textile trade

THE TEXTILE industry struggled against the combination of a sharp increase in imports and sluggish consumer demand in the opening months of this year, according to the latest industry statistics, **writes Alice Rawsthorn.**

The influx of textile and clothing imports into the UK rose by 12 per cent to £2.1bn in the first quarter of 1990, according to the Apparel Knitting and Textiles Alliance.

One of the main difficulties for UK companies is that it is easier for retailers to cancel *orders from local suppliers* than to stop consignments from overseas suppliers.

The flow of exports from the UK rose by 18 per cent to £1.1bn in the first quarter, according to the AKTA. However the rate of export growth was not enough to counter the full effect of increasing imports. The trade deficit in textiles rose by 6 per cent to £1bn in the first three months of this year.

Trends in Textile and Clothing Trade 1989, AKTA, 7 Swallow Place, London W1R 7AA, £30.

Meat industry to monitor effect of 'mad cow' disease on sales

By Clay Harris and Ralph Atkins

THE MEAT industry will be watching closely this week to see whether demand for beef shows any recovery from the recent downturn because of fears over "mad cow disease."

Some leading supermarket chains indicated that sales were lower but overall, reports about last week's trading were incomplete and mixed yesterday.

In previous scares about the cattle disease bovine spongiform encephalopathy (BSE), *many consumers have quickly* returned to beef after a break, although earlier scares have been much lower key.

Asda supermarket said beef sales last week had remained "quite robust" and were probably down by less than 10 per cent from the previous week.

Marks and Spencer said beef sales, not a significant part of its food business, were down by 10-20 per cent. The company has posted signs on its meat cabinets, stating that it bought beef only from suppliers vetted by its own inspectors and that beefburgers and similar products did not contain those body parts which had been associated with BSE.

J. Sainsbury and Tesco, two of the largest food retailers, maintained there was no evidence of any change in buying habits. But the manager of a Sainsbury branch in south-east London said on Saturday afternoon that his beef sales were running 20-25 per cent below the previous week's levels.

An independent butcher nearby was even gloomier. His *sales of beef had fallen by 50* per cent and, unlike Sainsbury, switching to other meats and poultry had not come close to making up the difference.

Both the butcher and the Sainsbury manager have reduced their wholesale orders for this week. The National Federation of Meat Traders, representing many independent butchers, will discuss reports from its members at a meeting today.

Mr John Gummer, the Agriculture Minister, yesterday underlined his confidence in the quality of British beef.

Speaking on BBC television, he said: "What I have to do is go on saying again and again that the Chief Medical Officer listened to all the experts, medical and scientific, and it was quite clear that British beef is entirely safe."

On LWT's Eyewitness programme, Mr Gummer said that West Germany had used fears of BSE-infected beef as an excuse to reduce competition with UK imports.

Dr David Clark, shadow *Agriculture Minister, said government* scientists had been told they would be sacked if they talked publicly about BSE. "Such actions show how far this government is prepared to go to stultify the debate on 'mad cow disease'," Dr Clark said. His allegations were denied by the Ministry of Agriculture and the Department of Health.

Sir Simon Gourlay, president of the NFU, yesterday said ministers had to do more to reassure the public through tighter co-ordination between government departments.

Hearing today on Maguires

SIR JOHN MAY, the former Appeal Court judge heading the inquiry into the convictions arising from the 1974 Guildford and Woolwich pub bombings, will begin public hearings into the related convictions of the Maguire family today.

Because the arrest of the Maguires arose directly from the disputed convictions of the Guildford Four, the Government decided to include their convictions within the terms of the Guildford and Woolwich inquiry.

Ulster talks reach testing stage

By Ralph Atkins

MR Peter Brooke, the Northern Ireland Secretary, will tomorrow face one of the biggest tests so far in his quest to start *talks on the province's political* future when he resumes a meeting with Unionist leaders.

The Northern Ireland Office will be hoping for agreement on the last of the three preconditions for talks set by the Unionists – the suspension of the secretariat of officials from the UK and the Republic of Ireland.

Exchanges two weeks ago led to agreement on the two other demands of Mr James Molyneaux and the Rev Ian Paisley, leaders respectively of the Official Unionist and Democratic Unionist parties.

But the secretariat is likely to be the most difficult. Set up under the 1985 Anglo-Irish Agreement and based in North*ern Ireland, it is seen by the* British and Irish governments as playing an important role in channelling information and soothing disputes behind the scenes.

Moreover, both governments will want to avoid being seen as compromising too much to Unionist demands.

Some officials are suspicious that if the Unionists feel Mr Brooke is willing to make concessions he will be pushed for still more.

Mr Brooke has won praise for keeping "talks about talks" going for so long.

However, Northern Ireland Office ministers continue to play down people's expectations of a breakthrough by *talking of "possibilities rather* than probabilities."

Even if a decision is reached, Mr Brooke will still face a difficult task in ensuring formal talks satisfy all sides – including the Irish Government and the mainly Roman Catholic Social Democratic and Labour Party.

In particular he will have to negotiate agreement on whether changes to the Anglo-Irish Agreement are considered by Britain and Ireland in tandem – or after – discussions of alternative forms of government for the province.

UK NEWS

Electricians hope to rejoin TUC

By John Gapper

MR Eric Hammond, general secretary of the electricians' union, the EETPU, said yesterday that he hoped the union could rejoin the Trades Union Congress before Britain's next general election, either through amalgamation or independently.

Mr Hammond, speaking on the first day of his union's national industrial conference in Blackpool, said he wanted the EETPU to return to the TUC as quickly as possible so that it could "play its proper part in the labour movement."

Leaders of the EETPU and the AEU engineering union are shortly expected to restart talks on a merger, rejected last year by the AEU national committee. The merger had been expected to be the means for the EETPU to rejoin the TUC.

However, Mr Hammond said that he was not optimistic the EETPU could rejoin the TUC – from which it was expelled in 1988 for breaching rules in two single union recognition agreements – in the next two years.

Talks between leaders of the AEU and EETPU are expected to restart following the vote at this year's AEU national committee meeting.

Wakeham to co-ordinate Government publicity

By Ralph Atkins

MRS Margaret Thatcher has intensified efforts to improve presentation of government policies in the run up to the general election by putting Mr John Wakeham, Energy Secretary, in charge of co-ordinating publicity.

Mr Wakeham is to take a behind-the-scenes role in liaising between departments and to have a strategic overview on presentation strategy. His objective is to avoid damaging slip-ups – such as the handling of community charge rebates in Scotland – which have plagued the Government in the past few months.

His appointment comes amid continuing difficulties for the Government. Ministers face an opposition debate on the future of the Ravenscraig steel mill today in which the Labour Party will seek to exploit apparent differences between the Department of Trade and Industry and the Scottish Office.

On the economy, the Government could find unemployment rising steeply this year and will want to be prepared for an election when the jobless and other statistics are at their most favourable.


John Wakeham

At the same time, Labour has won praise for the presentation of its policy review. On Thursday it will publish its campaign document with a press conference attended by Mr Neil Kinnock, Labour leader, and senior members of his shadow cabinet.

With the prime minister determined to keep a firm grip on election preparations, Mr Wakeham has the advantage of not being seen as a possible leadership challenger. He is valued by Mrs Thatcher for his experience of political management from his time as Chief Whip and leader of the House of Commons.

The appointment is likely to add to speculation that the influence of Sir Geoffrey Howe, deputy prime minister, is diminishing. But senior ministerial sources yesterday emphasised that the position would have been incompatible with Sir Geoffrey's position as leader of the House of Commons. Mr Kenneth Baker, Conservative Party Chairman, was also ruled-out because his appointment would have led to accusations that party and government affairs were being muddled, the sources said.

The clumsily-titled post of "Cabinet minister with responsibility for co-ordinating the development of government publicity" has been vacant for three years. It was last held by Lord Whitelaw, former deputy leader of the Conservative Party.

Mr Wakeham will work in conjunction with Mr Bernard Ingham, the prime minister's press secretary and head of the government's information service.

Changes in working practices offset hours cuts

By Michael Smith

THE INTRODUCTION of shorter working weeks has enabled many engineering companies to bring about far-reaching changes in working practices which will more than offset the cost of the hours cuts, according to a survey published in Britain yesterday.

Industrial Relations Services says that its analysis of 46 agreements indicate that it will be hard for employers to argue that the unions' campaign has had the disastrous effect predicted by the Engineering Employers' Federation.

"Some union members may wonder if the hours cuts are worth the greatly increased productivity being contributed by them to employers."

Not all the 200 or so employers who have conceded shorter working weeks have gained, however. Five of the companies examined by IRS say they will fund at least some of the hours reductions. Bonas Machine, the textile machinery manufacturer, conceded the first hour of a two hour reduction "without corresponding productivity gains being required."

Cascade (UK) said that since working practices have already changed significantly, it cannot recoup the cost of hours cuts by that route. It decided to make a two hour cut anyway to "remain in the upper quarter in the remuneration league."

The survey found that 15 of the 46 companies surveyed recouped some of the hours cut costs by better use of working time, by reducing or eliminating tea breaks, curtailing washing time and enforcing bell to bell working.

More flexible working arrangements, such as multi-machine operation and multi-skilling, form a second method of financing deals and these are likely to prove longer lasting in their effects.

Other changes include the introduction of cashless pay, regulation of overtime and closer scrutiny of absence records.

University heads reach consensus on 'bids'

By Norma Cohen

THE HEADS of Britain's universities have made an informal agreement not to undercut each other next month, when the Government will require them for the first time to compete for money to pay for their existing student places.

The move will undermine government efforts to introduce market forces intended to cut the amount of money spent per capita on university students.

"This is absolutely not a cartel," said an official of Britain's Committee of Vice Chancellors and Principals which represents university heads. "It is simply a consensus which has emerged."

While the Government has committed itself to a policy of wider university enrolment, it is urging greater efficiency in the form of lower unit costs.

Universities will be funded on a per-student basis from the start of the 1991/92 academic year.

Each school "bids" to the Universities Funding Council for a given number of student places in each discipline. Bids are to be submitted by June 22. Under the existing system, all student places are allocated to universities by the central authorities.

The intention of the new system is to award student places to the universities which submit the lowest bids, although the UFC says it is also concerned with the quality and range of courses offered.

At a meeting in mid-March of the Committee of Vice Chancellors and Principals, the body of university heads, the financially-pressed London-based universities proposed that all universities respond to the Government's new funding policy by bidding for all students – including expanded places – at guide prices laid down by the UFC. The guide prices are based on average actual expenditure in earlier years and are intended to be the maximum the Government will pay to educate a university student anywhere.

Vice chancellors rejected that proposal for uniform bids for all student places because they feared the Government might respond by cutting funds across the board. They opted for a less confrontational position in which they would bid at the guide price for existing students, but may bid slightly below that for additional places. Some officials also said they could not be sure that all universities would abide by such a firm agreement.

Meanwhile, the vice chancellors say they are waiting to see how much weight the UFC gives to cost in deciding which universities should be allocated places, and how it assesses quality.

"My expectation is that when the chips are down, the UFC will make decisions based on price," said Sir John Kingman, vice chancellor at the University of Bristol. Bristol, he added, is unlikely to submit any bids below the guide price, even in those subjects in which it wishes to increase enrolment.

"If you were really going to operate a system under market forces, you could finish up with some prestigious institutions like Oxford and Cambridge not being awarded any places at all," said Professor Brian Clarkson, principal of University College of Swansea.

MANAGEMENT

The debate about City short-termism

The long and the short of it

Simon Holberton considers industrialists' criticisms of pressures from financial markets

The unprecedented takeover boom of the past decade may be petering out, but it has breathed life into the debate about the role of financial markets in promoting economic well-being.

Critics of the recent behaviour of financial markets are beginning to find growing support for their view. This was most succinctly summed up by Keynes: "When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done."*

Disparate forces on both sides of the Atlantic are eager to frustrate what they see as the most egregious aspect of modern capitalism: the contested takeover. Research carried out by the Confederation of British Industry and the Department of Trade and Industry has turned up widespread dissatisfaction among industrialists, especially those in technology-intensive industries, about the limits placed on them by financial markets.

Businessmen, such as Ivan Yates, deputy chairman of British Aerospace, maintain that efforts to develop companies through greater emphasis on research and development have been frustrated by the need to watch their companies' share price continuously for signs of vulnerability to hostile takeover. They say that funds which could be put into R&D are being diverted into dividend payments and that management has to concentrate on keeping short-term profits high.

In the US, 36 states have passed legislation which seeks to frustrate hostile takeovers within their territory. The failure of BTR's bid for Norton in Massachusetts is just the most recent case.

In the UK, as the DTI prepares for a conference late next month entitled "Innovation and Short-termism", its officials are trying once again to interest ministers in ways of curbing what they see as the worst excesses of the City of London. Some DTI officials have taken comfort from the move by the US states to deter hostile takeovers.

They are investigating ways of making hostile takeovers in the UK more difficult and to allow target companies more time to prepare their defences. They are also looking at ways of penalising institutional investors, pension funds, life companies and the like, which "churn" their share portfolios for short-term financial gain. One suggestion, which would require the Treasury's agreement, is that a steep rate of capital gains tax be applied to gains made from short-term share dealing.

The title of the DTI's conference is indicative of a stream of thought concerning financial markets, managerial behaviour and economic performance. This view sees a concrete link between low levels of research, development and economic performance on the one hand and the short-termism of financial markets on the other.

According to this view, short-termism is characterised by companies' perceived need to bolster short-term earnings and dividends at the expense of R&D because of management's concern about hostile takeovers. Investment institutions are preoccupied with their own short-term performance because they have a fiduciary responsibility to achieve the highest return for their clients, and they live in an intensely competitive world where their performance is measured quarterly.

There is a lot that is attractive in the short-termism critique. In the UK, at least, it offers a scapegoat (the City) for British companies, with notable exceptions such as Glaxo, Pilkington and Fisons, neglecting commercially-oriented research and downstream product development.

But attractive as it is, there is little evidence to suggest that those who advance this argument can prove it. Indeed, some studies of investor behaviour suggest that the critics are incorrect and that a company's susceptibility to takeover has more to do with management failure than City or Wall Street cupidity.

According to one such study of 324 companies across 20 US industries by the US Securities and Exchange Commission†, the short-termism thesis throws up at least four testable hypotheses:

● that there is an inverse relationship between a company's research and development activity and institutional investment.

The study found that institutional shareholding rose from 30 per cent in 1980 to 38 per cent in 1983 at the same time that the average ratio of R&D spending to sales rose from 3.38 per cent to 4.03 per cent. In the SEC's sample, 88 companies experienced a fall in institutional ownership while 236 companies experienced an increase. But the average change in the R&D-sales ratio was identical, thus refuting the claim that increased institutional share ownership causes managers to focus more on the short-term.

● that takeover targets exhibit high levels of spending on long-term projects relative to their past experience and that of their competitors.

SEC economists also examined data on R&D spending for 57 companies subject to takeover. This revealed that these companies had an average R&D/sales ratio of 0.77 per cent, less than half of that for an industry control group in the year immediately preceding the takeover offer. "These data strongly suggest that investment in long-term projects does not increase a firm's vulnerability to a takeover," the study concluded.

● that institutions should hold a higher percentage of a target company's equity relative to companies not subject to takeover in the same industry.

The average institutional ownership of takeover targets in the quarter immediately preceding an offer for the company was 19.3 per cent compared with 33.7 per cent for companies in an industry control group of non-target companies.

● that public announcements by a company that they are embarking on long-term investment projects should result in a fall in its stock price.

On this question, the SEC study found that there was a statistically significant rise in companies' share prices, net of general movements in the market, after they said they would embark on a new R&D project. This evidence, taken over the period 1973-1983, rebuts "the argument that the market penalises companies that invest in long-term projects and thereby makes them candidates for hostile takeover."

In the light of the last finding it is curious that British industry resisted until last year the adoption of US accounting practices that require companies to detail what they spend on research and development. British companies' longstanding resistance to doing this did not assist them in convincing their shareholders of the benefits of R&D.

Adherents of short-termism as an explanation, partial or otherwise, of Britain's industrial malaise also support their views by comparing conditions in Japan and West Germany. In a contribution to a recent pamphlet published by the National Association of Pension Funds‡, Lord Alexander, chairman of National Westminster Bank, asked a series of rhetorical questions.

"For how long can we ignore the very positive performance of competitors whose systems are not so driven by the need to produce short-term rewards for shareholders? Does our stock market when analysed do less to raise capital than serve as a market for. . .the gaming chip? Has government no role to play in guiding the structure of industry? Have institutional investors, who hold 60 per cent of shares, and financing banks got ultimately to become more involved in allowing and facilitating a long-term strategy?"

The stock market as a "market for corporate control" is a largely Anglo-Saxon phenomenon. Stock markets on the Continent and Japan are in many ways just as "short term" in many respects as those in Anglo-Saxon countries. The Tokyo Stock Exchange, for instance, is driven by capricious fashions; on the Frankfurt Stock Exchange prices rose sharply during the Christmas and New Year period on the promise of the super profits German companies might earn from the economic redevelopment of central Europe.

But what the Continental and Japanese stock markets, so far, are not is a market for corporate control. Cross-shareholding among Japanese companies means that only 25 per cent of the equity of listed Japan Inc is available for trading and speculation. In Germany, only a relatively small part of industry is publicly owned. For that part which is owned by the public, the role of banks as shareholders and custodian of proxy votes of other investors (which gives them control over nearly 60 per cent of market equity value), ensures that the ownership of German industry remains stable.

The German and French legal systems also support stability of ownership and management. The two-tier board structure in Germany and the ability of French companies to place restrictions on the transfer of shares and voting rights means that the balance of power between owners and managers is decisively in favour of the latter.

Julian Franks of London Business School, and Colin Mayer, of City University Business School, have questioned whether Europe is moving in the right direction by seeking to make UK company and takeover law the basis for Europe.§§

In the UK, change of ownership is the primary way in which managerial failure is corrected. By contrast, in both the French and West German systems, as they currently operate, the connection between the correction of management failure and change in ownership is diminished.

"This is reflected in a relatively low incidence of hostile takeovers, buy-outs and buy-ins. Furthermore, the overall level of executive dismissal is apparently relatively low in both France and Germany."

They go on to point out that the stability this affords to management on the Continent may provide managers with incentives to engage in long-term investment. In a situation where European law and practice comes to resemble that of the UK, investment in R&D and training may suffer, Franks and Mayer claim.

But, although the evidence used to support the short-termism critique varies, its proponents have drawn blood. Lord Hunt, the chairman of Prudential, Britain's biggest institutional investor, felt the need to respond to such criticisms in the Prudential's latest annual report.

He pointed out that in 1989 there were 84 bids for companies in which the Prudential held shares; it accepted only 5 of the offers. Furthermore, since 1984 there have been 490 bids for companies in which the Prudential had an interest; it failed to support the incumbent management in only 25 cases.

But just to show that the issue of the long and the short term is here to stay, Lord Hunt reminded the Prudential's shareholders: "Managements should recognise that their primary obligation is to maximise the value of shareholders' investments in the company in both the short term and the long term."

* *The General Theory of Employment Interest and Money, 1936.*

† *Institutional Ownership, Tender Offers, and Long-Term Investment, Office of the Chief Economist, SEC, Washington, April 1985.*

‡ *Investor Relations - Does the British System Work? in Creative Tension, National Association of Pension Funds, February 1990.*

§§ *Capital Markets and Corporate Control: a study of France, Germany and the UK. Economic Policy, April, 1990.*

Additional research by Christopher Lorenz.

Business courses

Financial seminar for senior managers. London. June 4-8. Fee £2,200. Enquiries to: Yee Liu Williams, London Business School, Sussex Place, Regent's Park, London NW1 4SA. Tel: 071-262 5050 extn 585.

The future of corporate identity. London. May 31. Fee: £185 + VAT. Enquiries from: Elaine Linhan, Conference Department, Institute of Directors, 116 Pall Mall, London SW1Y 5ED.Tel: 071-839 1233.

Managing culture in organisations for the 1990s. London. June 14. Fee: £264.50 + VAT. Enquiries to: Shiela Ledner, Strategic People, Pepys House, 48 Station Road, Chertsey, Surrey KT16 8BE. Tel: 0932-563213.

Winning new business in today's competitive environment. London. June 12-13. Fee: £625. Enquiries to: Advanced Technology International, 1990 WNBUK Seminar, Suite M9, Victoria House, Southampton Row, London WC1B 4ER. Tel: 071-404 3341. Fax: 071-405 6203.

Competitive remuneration - winning strategies. London. June 13. Fee: £225 + VAT. Enquiries to: Louise Gillott, Tolley Conferences, Tolley House, 2 Addiscombe Road, Croydon, Surrey CR9 5AF. Tel: 081-680 5682.

What is organisation development? Middlesex. June 4-5. Fee: £450 + VAT. Enquiries to: Miriam Dean, Programme Secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0895-56461. Fax: 0895-811737.

Total quality management. London. June 5-6. Fee: £609.50 + VAT. Enquiries to: Kay Gibbs, Conference Director, IFS Conferences, Wolseley Business Park, Wolseley Road, Kempston, Bedford MK42 7PW. Tel: 0234-853605.

New product introduction. London. June 21-22. Fee: £603.75 + VAT. Enquiries to: Paul Grove, ICM, 50 Occam Road, Surrey Research Park, Guildford, Surrey GU2 5YS. Tel: 0483 37107.

The Pacific rim: Future opportunities & challenges. London. June 21. Fee: £276 + VAT. Enquiries to: Conference Organiser, The Royal Institute of International Affairs, 10 St James's Square, London SW1Y 4LE. Tel: 071-930 2233.

Town hall expansion programme

Major extensions to a town hall are included in a batch of contracts worth over £16m awarded to *TARMAC CONSTRUCTION.*

The company has a £5.5m contract from Bournemouth Borough Council for building a *six-storey extension to the* town hall together with a two-storey basement car park. The project involves alterations and minor works within the existing building.

The building dates from the 1880's and was an hotel and a military hospital during World War 1 before being converted into a town hall in 1921.

Work on the extensions, at the rear of the building, started recently and is due for completion at the end of next year.

On the M2 in Kent, the major projects division has a £3m contract for maintenance work between junctions five and six, due for completion in July.

Other contracts include designing and building two-storey offices at Warwick Technology Park for Tarmac Properties (£1.6m); fitting-out a store at Thurrock, Essex, for W.H. Smith (£1.4m) and another store in Hull for Boots (£501,000).

Osborne House

Refurbishment of the former household wings of Osborne House, now in use as a nursing home for servants of the Crown, is to be undertaken by JOHN LELLIOTT CONSTRUCTION GROUP as a £1.85m contract for English Heritage. Osborne House is the former summer residence of Queen *Victoria and Prince Albert on* the Isle of Wight. Work involves the provision of facilities for patients, including a hydro-therapy pool, together with additional fire protection for the royal apartments open to the public.

CONTRACTS

£14.9m Harrow offices scheme

An offices project for *Legal &* General Property at Harrow and a new school in Buckinghamshire are among the £20m worth of contracts awarded to *LAING CHILTERN.*

A £14.9m contract for Legal & General Property calls for 94,250 sq ft gross of offices on seven storeys with a five level *underground car park.*

One of the main features is a central enclosed atrium with a glass barrel vault roof. The atrium walls will be part mar*ble faced and two scenic* lifts serving *the office levels will* complete the picture.

Construction of the car park will be achieved by means of a "top down" sequence. The sur*rounding* ground at the College Road site will be supported by contiguous piling, with the main building loads being carried on large diameter bored *piles, installed from ground* level.

Buckinghamshire County Council has awarded a £1.8m contract for a combined school at Linden Village. The single-*storey building* will be served with an access road plus car parking and play areas.

Laing Chiltern has also been awarded a £2.8m contract by Napp Laboratories *to extend* its warehouse at Cambridge. Work will also include refurbishing the quarantine store and external fire path.

The company's *general* works department has won a contract to construct a link corridor at the Royal National Orthopaedic Hospital at Stanmore.

Equipping Stevenage research campus

TILBURY GROUP has won contracts worth £9.4m. Tilbury's United Kingdom Construction and Engineering Company has been awarded a contract worth £6m by Trafalgar House Construction for Glaxo's research campus at Stevenage.

The project is scheduled for completion by August 1991.

The company will be responsible for installing 350 items of equipment, 22 modular pipe bridges, and 44,000 metres of carbon steel, copper and plastic piping systems.

Tilbury's civil engineering division has secured a £3.4m contract with Yorkshire Water at its Stavely Sewage Treatment Works near Chesterfield.

The contract from Yorkshire Water comprises the construction and commissioning of the new treatment works and the demolition of the old facility.

Upgrading Northampton's Guildhall

The historic Guildhall building in Northampton town centre is about to undergo major building work by a local company. MARRIOTTS OF RUSHDEN has won an £8.25m contract to extend the Guildhall for Nor*thampton Borough Council.*

The contract involves the construction of a basement car park, public areas and offices on five floors, totalling about 88,000 sq ft along with alterations to the existing Guildhall.

The design of the building is of a traditional nature with stonework on the front elevation to match the existing Guildhall and work begins in June.

In Northampton, other pro*jects* include a new hotel at Collingtree for Stakis Land and Estates, valued in excess of £8m.

A £4.5m contract to build offices at College Road, Harrow has been placed with Beazer Construction Southern by Heron Hi-Tech of London who will be letting the office space. The five-storey *building fea*tures below ground level parking for up to 88 cars. The building work is expected to be completed by June 1991.

Beazer Construction London has won a £3m design and construct contract to build a mixture of flats and houses for the London & Quadrant Housing Trust. The development is situated in Sedgehill Road, south east London.

New offices complex for Hertfordshire

COSTAIN CONSTRUCTION, a subsidiary of Costain E & C, has been awarded a £9.25m contract by Legal & General Property, to build a complex of five office buildings in Watford for Legal & General's Managed Fund.

Known as The Belfry, the complex will consist of two three-storey and three two-storey B1 office units. The larger buildings each provide 2,000 sq metres of office space, while the smaller buildings each measure 1,000 sq metres.

Built on bored piled foundations, the buildings will have reinforced concrete frames. The cladding will be buff-coloured brick highlighted with *Staffordshire blue brick.* The pitched roofs will be finished in slate and curtain walling will be a feature of the entrances.

A golf putting green will be a feature of the external landscaping. Access roads and pedestrian areas will be formed using concrete block paving and there will be provision for 270 car park spaces.

Work on the project is expected to be completed at the end of June next year.

Major roadbuilding project in Sussex

SHEPHARD HILL has received orders totalling over £11m. The largest is a £6.5m contract won by its southern regional office to build the 3 km long A259 Rustington by-pass for West Sussex County Council.

Another project is a scheme to protect the crumbling cliffs at Fairlight near Hastings. Rother District Council has placed a £2.5m contract to build a 500 metre long rock armoured bund along the foreshore.

LEGAL COLUMN

Fishermen raise tangled EC issue

By Robert Rice, Legal Correspondent

SPANISH FISHERMEN moved a step nearer to winning back their right to register their fishing vessels under the British flag last week following a favourable European Court opinion in long-running litigation against the British Government.

In 1988, the UK legislation governing the registration of British fishing vessels was amended by the Merchant *Shipping Act 1988 to stop* "quota hopping," under which UK fishing quotas were being "plundered" by British flagged vessels with no genuine link with the UK.

A number of UK-incorporated but Spanish-owned companies suddenly found themselves effectively banned from fishing from April 1 1989, and *they challenged the compatibil*ity of the new legislation with Community law in the High Court. The High Court referred a question of Community law raised by the case to the European Court for a preliminary ruling and, as an interim measure, ordered the Secretary of State not to apply the new act pending final judgment.

Mr John MacGregor, when he was Minister of Agriculture, Fisheries and Food, appealed to the House of Lords on the grounds that UK courts did not have the power to suspend the application of laws or to obtain an injunction against the Government. The Law Lords agreed and ruled that under English law the courts had no power to suspend the application of an Act of Parliament on the grounds of its alleged, but unproven, incompatibility with EC law. But their Lordships also referred the case to the *Court of Justice for a prelimi*nary ruling.

Does EC law give national courts the power to grant interim protection?

The question to be considered was: when a reference for a preliminary ruling is made by a national court, does Community law give the national court the power, or put it under an obligation, to grant interim protection, even though the court in question has no power to grant such interim protection under its national *law?*

In the opinion of Mr Advocate General Giuseppe Tesauro, it does. He told the judges of the European Court that the national court's duty to give effective judicial protection to the rights conferred on the individual by Community law, where the relevant requirements of direct applicability were satisfied, must embrace the interim protection of rights pending final adjudication of the case.

To give priority to national legislation merely because it *had not yet been definitely* declared incompatible with Community law, and thus to proceed on the basis of a presumed compatibility, might amount to depriving Community rules of the effective judicial protection that must be afforded to them.

He went on to point out that it was well established by case *law that national courts* of member states were required to give complete and effective judicial protection to individuals on whom rights were conferred by directly effective provisions of Community law. Any national provision that precluded the court from giving "full effect" to Community provisions was incompatible with Community law. The purpose of an advocate general's opinion is to provide an impartial and independent view to assist the judges. As such, the court is not bound to follow it in reaching its decision. However, in the majority of cases it does, and if it does so in this case it will be no surprise.

Although conflicts between Community law and Acts of Parliament have often been mooted in the past, they have largely failed to materialise. Indeed the House of Lords seemed to accept when it heard *this case last summer that* Acts of Parliament must yield to conflicting case law of the European Court.

Although the Law Lords felt unable to decide the point themselves without referring it to Luxembourg, Lord Bridge, with whom all their Lordships agreed, declared himself inclined to the view that rules *of national law that render the* exercise of directly enforceable Community rights excessively difficult must be overridden.

It must surely follow from this that any Act of Parliament passed since the European Communities Act must be read as subject to directly enforceable rights arising under Community law. Certainly Mr Tesauro seems to think so. We will know in about six weeks whether the full Court of Justice agrees with him.

Solicitors worried about training change

By Robert Rice

THE LAW Society's governing council has approved plans for a radical change in solicitors' education and training, in spite of some serious concerns about the proposals raised both by *academics at the College of* Law and by members of the profession.

The changes, outlined in a discussion document entitled Training Tomorrow's Solicitors, are designed to meet what the society sees as both the need to improve the quality of entrants to the profession and to increase the system's ability to respond flexibly to changes in demand for legal services.

The main proposal is to replace the present Law Society Finals Course with a 24-week practical skills Legal Practice Course (LPC). This would introduce students to advocacy and other practical skills and give them an understanding of the law and basic procedures affecting conveyancing, wills and probate, the basic principles of civil and criminal litigation and the rules of evidence.

Students would have the ability to choose two or three optional subjects within the general categories of either general or commercial practice.

The new course begins to *sound very similar* to the Bar Finals course. Is this perhaps the beginning of a move by the society towards the gradual introduction of common training for all lawyers?

The LPC will be assessed by a mixture of written examination and continuous assessment undertaken by the institutions actually teaching the course. This proposal in particular has caused much controversy among the practising profession which fears that it will no longer be possible to maintain uniform standards.

They fear they will have to learn to differentiate between the standards of the courses taught at the various institutions when selecting trainees and that confidence in the profession may be lost.

They have also expressed concern that if the centrally-set finals exam is abolished, the profession will cease to be self-regulating. Articles will be replaced by two-year training contracts between trainees and licensed firms in private practice.

A compulsory four-week Pro*fessional Skills Course will* also be introduced to replace the accounts course in articles and the category "A" continuing education courses which have to be undertaken in the first two years after admission.

The LPC will start in autumn 1993 with the last Final Exams sitting in 1994.

As a response to the much-publicised recruitment crisis of the late eighties it is arguable, however, that these changes will be introduced just at the time when the demand for new recruits to the profession is beginning to decline sharply.

To make it easier to qualify as a solicitor in order to attract more people into the profession, at a time when redundancies among assistant solicitors are beginning to increase, is something the practising profession may find hard to understand.

Many practitioners, while accepting the need to improve the practical contents of the finals course, appear to believe that the society has failed to make a case for such a big shift in the training system.

As *the Holborn Law* Society states in its response to the consultation paper, the society appears at no stage to justify the need for change by reference to statistical evidence.

The profession is therefore left to speculate about the society's reason's for proposing the change, it says. That speculation is compounded when "there has not been any great clamour within the profession for reform of education and training at this time."

As we approach 1991 and the introduction of mutual recognition of professional qualifications can it be right, they ask, to be making the English and Welsh profession the easiest of the European legal professions in which to qualify? More importantly, can all this really be taught in 24 weeks at any*thing other than a very super*ficial level?

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Boddington, Holiday Inn Crown Plaza, Midland Hotel, Manchester, 11.45
Celestion Industries, Hotel Britannia, Grosvenor Square, W., 12.00
Rea Bros., Great Eastern Hotel, Liverpool Street, E.C., 12.00
Savoy Hotel, The Savoy Hotel, W.C., 12.00
BOARD MEETINGS-
Finals:
Goldsmiths
Ralston Inv. Tst.
Scott's Restaurants
Tern
Interims:
Carlton Communications
F & C Eurotrust
Fairline Boats
Great Western Resources
Mcleod Russel
Radio City (Sound of Merseyside)
USKO
Wharfedale
DIVIDEND & INTEREST PAYMENTS-
ASW Hldgs. 7p
ATA Selection 1.5p
Aon Corp. 38cts
Boxmore Intl. 3.85p
Chase Manhattan Corp. Fltg. Rate Sub. Nts. 1997 $220.42
Christiania Bank OG Kreditkasse Fltg. Rate Nts. 1995 £330.08
Dowding & Mills 1p
Edinburgh Fund Managers 7.3p
Ensign Tst. 0.3p
Enterprise Oil 7.75p
European Home Products 3.5p
Export-Import Bank of Japan $5\frac{5}{8}$% Gtd. Bds. 1998 4.3125pc
Guinness 10.9p
IMI 5.7p
Isle of Man Steam Packet 3p
Lancaster 3p
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1995 £381.14
Mallett 4p
Manders (Hldgs.) 4.65p
Melville 1.6p
Mitsubishi Corp. Finance Fltg. Rate EuroMed. Term Nts. 1993 4.8125pc
Richards Grp. 2.5p
Richardsons Westgarth 1.6p
Rutland Tst. 0.53p
Sea Containers 15cts
Security Pacific Corp. Fltg. Rate Sub. Capt. Nts. 1997 $211.23
Shell Transport & Trading 10.7p
Sykes-Pickavant 3.5p
TSW Hldgs. 1.23p
Treasury $12\frac{1}{2}$% Stk. 2003/05 6.25pc
TOMORROW
COMPANY MEETINGS-
Christies Intl., 8 King Street, St. James, S.W., 12.00
Connell, Browns Hotel, Dover Street, W., 10.30
HTV, The Television Centre, Culverhouse Cross, Cardiff, 12.30
Hogg Group, Baltic Exchange Chambers, 14/20 St. Mary Axe, E.C., 12.15
Polly Peck Intl., Grosvenor House Hotel, Park Lane, W., 12.00
Turiff Corp., Howard Hotel, Temple Place, W., 11.30
Williams Hldgs., Swinfen Hall Hotel, Lichfield, Staffordshire, 12.00
BOARD MEETINGS-
Finals:
British Airways
Chesterfield Props.
Conrad Continental
Gates (Frank G.)
Monks Inv. Tst.
Plaxton Intl.
Prowting
Readicut Intl.
Interims:
Anglo-Scandinavian Inv. Tst.
Bass
Carlton Communications
Ranks Hovis McDougall
DIVIDEND & INTEREST PAYMENTS-
Boddington 3.25p
Brooks Service 3.91p
Commerzbank Overseas Finance NV $502.78
Conversion $10\frac{1}{4}$% Stk. 1996 5.125pc
Exchequer $2\frac{1}{2}$% Stk. 1990 1.25pc
Life Sciences Intl. 1.5p
National Westminster Bank Und. Var Rate Nts. $215.7
New Zealand Fltg. Rate Nts. 1997 £185.18
Standard Chartered Sub. Fltg. Rate Nts. 1996 £185.82
Sumit 3.7p
Third Mile Inv. 2.05p
Treasury 14% Stk. 98/2001 7pc
Do. $2\frac{1}{2}$% Index-Linked Stk. 1999 £1.7086
WEDNESDAY MAY 23
COMPANY MEETINGS-
Abbeycrest, St. Pauls House, Park Square, Leeds, 2.00
Arley Hldgs., Hill Samuel Bank, 100 Wood St., E.C., 11.30
Bemrose Corp., Stationers Hall, Moorgate, E.C., 11.45
Bridon, Le Meridien Hotel, W., 12.00
CSC Inv. Tst., Great Eastern Hotel, Liverpool St., E.C., 12.00
Costain, Ironmongers Hall, Barbican, E.C., 12.00
Guardian Royal Exchange, The Institute of Chartered Accountants, Moorgate Place, E.C., 12.00
Harrisons & Crosfield, Baltic Exchange, 14/20 St. Mary Axe, E.C., 12.00
Herring Son & Daw Hldgs., 26/28 Sackville St., W., 12.00
Johnson Cleaners, Atlantic Tower Hotel, Chapel St., Liverpool, 11.30
Ocean Group, The Savoy Hotel, Strand, W., 12.00
P-E Intl., The Savoy Hotel, Strand, W., 12.00
Slough Estates, The Savoy Hotel, Strand, W., 12.00
BOARD MEETINGS-
Finals:
Abtrust New Dawn Inv. Tst.
AmBrit Intl.
Chamberlin & Hill
Courtaulds
Isopad Intl.
Land Securities
REA Hldgs.
Tribble Harris
Trimoco
Interims:
Bett Bros.
Cauldon
Compass
Countryside Props.
Ferry Pickering
Whessoe
Yorkshire Television
DIVIDEND & INTEREST PAYMENTS-
Bank of Montreal 10% Nts. 1990 5pc
Christies Intl. 5p
DRG $7\frac{3}{4}$% Uns. Ln. 88/91 3.875pc
Dauphin 3.3p
EW Fact 2.6p
HTV 2.5p
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1996 £185.92
Laing Properties 7.3p
Laporte 10.7p
Lopex 4p
Mackay (Hugh) 3p
Merrill Lynch 25cts
Minerals Oils & Res. Shs. Fund 17cts
Peninsular & Oriental Steam 17p
Pittard Garnar 4.15p
Sherwood 5.2p
Singer & Friedlander 1.5p
Sun Life Assurance Society 30.27p
Sunderland (Borough of) $11\frac{3}{4}$% Stk. 2008 5.875pc
Treasury $13\frac{3}{4}$% Ln. 1993 6.875pc
Williams Hldgs. 7p
THURSDAY MAY 24
COMPANY MEETINGS-
Baird (William), Central Hotel, Gordon St., Glasgow, 12.00
Barlows, Chester Grosvenor Hotel, Chester. 12.00
Caparo Inds., 8 Baker St., W., 12.00
Clayton Son, The Queens Hotel, Leeds, 2.00
Croda Intl., Cowick Hall, Snaith, Goole, 12.00
Estates & General Invs., Selfridge Hotel, W., 12.30
Ipeco Hldgs., Airport Moat House Hotel, Aviation Way, Southend Essex, 10.00
Liberty, 214/220 Regent St., W., 12.00
London & Metropolitan, Stationers Hall, Ave Maria Lane, E.C., 12.00
MB, The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.30
Mount Charlotte Invs., Mount Royal Hotel, Bryanston St., W., 12.00
Rotork, Rotork House, Brassmill Lane, Bath, 12.00
Secure Trust, 12 Newhall St., Birmingham, 12.15
Suter, Howard Hotel, Temple Place, 12.00
Tibbett & Britten, New Connaught Rooms, Great Queen St., W., 10.00
Willis Faber, 10 Trinity Square, E.C., 12.00
BOARD MEETINGS-
Finals:
Airflow Streamlines
British Telecom
Elliott (B.)
Elswick
Fine Art Devs.
Garrard & National
Northumbrian Fine Foods
Smith (James) Estates
Toshiba
Verson Intl.
Young & Co's. Brewery
Interims:
Archer (A.J.)
Blick
Chiltern Radio
Chrysalis
Dobson Park Inds.
Fulcrum Inv. Tst.
Govett Atlantic Inv. Tst.
Greyfriars Inv.
Kelsey Inds.
MEPC
Warner Estate
DIVIDEND & INTEREST PAYMENTS-
Abbeycrest 2.4p
BTR 8.3p
CSC Inv. Tst. 6.75p
Clayton Son 9.3p
Dolphin Packaging 2.5p
Handley-Walker 5p
Jacobs (John I.) 2.8p
MTM 2.8p
Murray Intl. Tst. 3.2p
Royal Bank of Canada 29cts
Steel Burrill Jones 8p
TI 11.75p
Wilson Bowden 5.4p
Wolstenholme Rink 10p
FRIDAY MAY 25
COMPANY MEETINGS-
AMEC, Holiday Inn Crown Plaza, Midland Hotel, Manchester, 12.00
Bodycote Intl., St James's House, 7 Charlotte Square, Manchester, 10.30
Breedon, Company's Offices, Breedon-on-the-Hill, Leicestershire, 10.00
Cookson, Stationers Hall, Ave Maria Lane, E.C., 12.00
Dawson Group, Founders Hall, Cloth Fair, E.C., 10.30
Inchcape, Le Meridien Hotel, 21 Piccadilly, W., 12.05
Johnston Group, The Hyde Park Hotel, Knightsbridge, S.W., 12.00
NMW Computers, Stapeley Hse., London Rd., Nantwich, Cheshire, 12.00
Olives Hldgs., Royex House, Aldermanbury Square, E.C., 10.00
RMC, The Inn on the Park, Hamilton Place, Park Lane, W., 11.30
Reylon, Company Offices, Wellington, Somerset, 12.00
Tesco, 30 Threadneedle St., E.C., 2.30
Weir, 30 George Sq., Glasgow, 12.00
Wilson (Connolly), Northampton Moat Hse., Northampton, 12.00
BOARD MEETINGS-
Finals:
British-Borneo Petroleum
Castings
Jarvis Porter
Lowndes Queensway
Mayflower Corp.
Interims:
Albion
Consolidated Co. Bullfontein Mine Ld.
Griqualand West Diamond Mining
Morland
Shaftesbury
Thornton (G.W.)
DIVIDEND & INTEREST PAYMENTS-
APV 3.4p
Aluminium Co. of America 40cts
Anglo-Park 2p
Ash & Lacy 3.9p
Audit & General 0.3p
BNB Resources 2.7p
Barratt Developments 3.21p
Bemrose 7p
Bostrom 3.5p
Capital & Regional Properties 0.6p
Derwent Valley Hldgs. 5p
Eaton Corp. 50cts
F. & C. Pacific Inv. Tst. 0.9p
Gabicci 1.4p
Great Western Financial 21cts
Greggs 8p
Herring Son & Daw Hldgs. 3.25p
Hornby 7.5p
Iceland Frozen Foods 4.2p
Lloyds Eurofinance NV Gtd. Fltg. Rate Nts. 1996 £183.84
MB 4.375p
Malaya Grp. 1.25p
Molins 8p
RKF 2.25p
Sharpe & Fisher 2.5p
Sintrom 1.64p
Wassall 1.45p
SATURDAY MAY 26
DIVIDEND & INTEREST PAYMENTS-
Edmond Hldgs. 1.2p

PARLIAMENTARY

Today

Commons: Opposition Debate on Ravenscraig followed by Debate on Bovine Spongiform Encephalopathy. Motion on EC documents relating to the Social Charter.

Lords: Social Security Bill, Committee. Australian Constitution (Public Record Copy) Bill, Second Reading.Select Committee: Public Accounts - subject, Training of non-civil servants. Witnesses: Mr E Kemp, Office of the Minister for Civil Service, and Mr D Andrews and Mr M Partridge, Department of Social Security (Room 16, 4.30 pm).

Tomorrow

Commons: Opposition Debate (Social and Liberal Democrat) on alterations and amendments to the Poll Tax. Remaining stages of the Town and Country Planning Bill, the *Planning (Listed Buildings)* Bill, the Planning (Consequential Provisions) Bill and the Planning (Hazardous Substances) Bill. Opposed private business from 7 pm.

Lords: Social Security Bill, Committee. London Docklands Development Corporation (Vesting of Land): London Borough of Southwark) Order, Mostion for Approval.

Select Committee: Foreign Affairs - subject, Expenditure in 1990-91. Witnesses: Sir Richard Francis, Director General, and officials from the British Council (Room 15, 10:30 am).Commmittees on Private Bills: Midland Metro (Room 5, 10.30 am); Tees and Hartlepool Port Auth (Room 6, 10.30 am)

Wednesday

Commons: Motion for Spring *Adjournment. Motion on the* Appropriation (No 2) (Northern Ireland) Order.

Lords: Debate on State of Civil Liberties. Debate on Relationship of Poverty and Illiteracy to rapid population growth in developing countries. Question to Government on sentencing policy.

Select Committees: Foreign Affairs - subject, European Council, Dublin. Witness: Rt Hon Douglas Hurd MP, Foreign Secretary (Room 8, 10.30 am)

Defence - subject, Implications for UK defence policy of recent events in Europe. Witnesses: Francois Heisbourg, International Institute of Strategic Studies, and Prof Robert O'Neill, Oxford University (Room 16, 10.50 am)

Agriculture - subject, Bovine Spongiform Encephalopathy. Witness: Rt Hon John Gummer MP, Agriculture and Food Minister (Grand Committee Room, Westminster Hall, 3.30 pm)

Education and Science - subject, Science policy and the European dimension. Witnesses: Prof P Fasella, European Commission (Room 18, 4.15 pm)

Public Accounts - subject, Debt Collection and Enforcement. Witness: Sir Anthony Battishall, Inland Revenue. (Room 16, 4.15 pm).

Defence - subject, Sea Harrier, Midlife Update. Witnesses; MoD officials (Room 20, 4.30 pm)

Treasury and Civil Service - subject, Eastern European Monetary Arrangements. Witnesses: Bank of England officials (Room 17, 4.30 pm).

Thursday

Commons: *Adjournment* Debates.Lords: Law Reform (Miscellaneous Provisions) (Scotland) Bill, Third Reading. Aviation and Maritime Security Bill, Third Reading.

Trade fairs and exhibitions: UK

May 21-26
International Federation of Precast Concrete Exhibition and Conference (081-743 3106)
Queen Elizabeth II Conf. Centre

May 22-24
CD-ROM Exhibition (0733 60535)
Novotel

May 22-24
London Wine Trade Fair (071-973 6401)
Olympia

May 22-25
Chelsea Flower Show (071-834 4333)
Royal Hospital

May 24-28
Model Show (021-780 4171)
NEC, Birmingham

June 1-2
Kensington Fashion Fair (071-727 1929)
Kensington Town Hall

June 12-14
International Fire Protection Exhibition – FIREX (01-207 5599)
NEC, Birmingham

June 14-23
Grosvenor House Antiques Fair (0799 26699)
London

June 19-21
PC User Show (071-404 4844)
Olympia

June 21-24
Royal Highland Show (031-333 2444)
Ingliston Showground, Edinburgh

Overseas exhibitions

Current
International Spring Fair (071-639 7265) (until May 27)
Luxembourg

May 23-May 31
International Spring Fair (021-455 9600)
Budapest

June 5-8
Communications Equipment Exhibition - BRAZIL COM EXPO (081-977 3474)
Rio de Janeiro

June 10-13
International Petroleum and Petrochemical Equipment Exhibition - PETRO/EXPO (081-9773474)
Mexico City

June 12-14
CAD/CAM & Robotics Exhibition (081-940 3777)
Toronto

June 14-18
International Environmental Protection and Control Equipment and Technology Exhibition (0494 729406)
Manila

June 26-30
International Industrial Development Technology, Machinery and Equipment Exhibition – ITM (071-486 1951)
Kuala Lumpur

Business and management conferences

May 21-22
Financial Times Conferences: The Seventh European and Petroleum Gas Conference (071-925 2323)
Amsterdam

May 21
CBI Conferences/RICS: Property as a corporate resource (071-379 7400)
Centre Point, London

May 21-22
Financial Times Conferences: European transport in the 90s (071-925 2323)
Hotel Inter-Continental, London

May 22
CBI Conferences/DTI: UK and international aid for Eastern Europe - what you need to know (071-379 7400)
Centre Point, London

May 23-24
Chicago Association of Business Economists: Financial outlook (Chicago 312 875 0044)
Chicago

May 23-24
Financial Times Conferences: Manufacturing strategies for the 90s (071-925 2323)
Metropole Hotel, Birmingham

May 24
ESC: Tax constraints on inter*national business – a review* of anti-avoidance provisions (0536 204224)
London

May 24-25
Practising Law Institute: The Swaps Market in 1990 (212 765 5700)
Westbury Hotel, New York City

June 6
*International Business Com*munications: Investment Trusts (071-637 4383)
Regent Crest Hotel

June 7-8
The Textile Institute: *Market* opportunities in a changing world (061-834 8457)
Royal Garden Hotel, London

June 11-15
NALGO annual conference (071-388 2366)
Bourenemouth

June 12
IBC: Dematerialisation - the implications for the securities industry (June 11); The future for the UK securities industry (June 12) (071-637 4383)
Cafe Royal, London

June 12-13
Financial Times Conferences: The publishing industry in the 90s (071-925 2323)
Hotel Inter-Continental, London

June 15
CBI Conferences: Evaluation – The key to investing effectively in training (071-379 7400)
Centre Point, London

June 20
Mintel: Tomorrow's retailing: juggling for success (071-606 4533)
The Barbican, London

June 25-26
Financial Times Conferences: World gold conference (071-923 2323)
Venice

June 28
The Conference Company: The road to the German information technolgy market – How UK based companies can kick off their marketing campaigns in Germany (071-486 4523)
Le Meriden, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

ARTS

Serious and simple: Mario Botta's Banca del Gottardo in Lugano

ARCHITECTURE

Delights of a Swiss bank

Lugano is an important place. It is growing rapidly as another Swiss banking centre, but also one that is infused with the light of the Mediterranean from neighbouring Italy. Light percolates, not just in the language and the cuisine but in the high standard of much of its modern architecture. Lovers of contemporary architecture would be well advised to make the pilgrimage to the Ticino borderland where, since 1970, a school of new architecture has grown up under the particular influence of Mario Botta.

His largest building recently opened in Lugano – it is the head office of the Banca del Gottardo on the Viale Stefano Franscini – an interesting street with some agreeable 19th century villas. Immediately opposite the bank is the small park of the Villa Saroli – a green pause in the urban street.

The first impression of the long block of the new bank is a powerful one, a strong image of a serious institution. Yet it is clear that Botta is concerned to create a large urban building that has some resonance with the fabric of the city. At the bank he has built a monument, a civic and secular temple that offers to the street faint and mystifying clues about the rites practised within its totemic entrances.

The long street facade is divided into four pavilions. Each member of this quartet of blocks has an entrance placed the foot of the dramatic opening gash. The bank has shown its civic mindedness by making two of the entrances lead to public facilities. One of these is an elegant restaurant and the other an art gallery and small hall.

The elements of Botta's architectural scheme are simple. Four masses of building (largely offices) separated by voids. The voids are the key as they form high top lit hollows in the shape of a segment of a circle. Light is let into the heart of the building this way – not via overglazed atria but with a sense of mystery. In the banking hall this is particularly effective.

The striped finishes from the exterior occur again inside. Burnished and flat steel abuts onto columns striped in two tones of grey marble. The grey marble floor is laid in elegant chevron patterns and circular timber desks are set against a powerfully top lit marble.

Botta likes circles. In solid, hollow and cut-out forms. In many of his earlier houses he played elaborate and strange games with apparently solid cubes punctuated by circular openings. In the Banca del Gottardo his revolutions have reached a maturity. Circular reception desks of striped birch wood dominate elegant halls. In the safe deposit area on a lower floor the centre rows of circular columns are clad in alternating bands of shiny and dull stainless steel.

The safe deposit is a particularly strange and exciting place, entirely silver and grey it has a cool elegance and a confidence that comes from the quiet certainty of innumerable private Swiss bank accounts.

There is a rhythm throughout the building that is almost syncopated. The bank has that rare quality of architectural life.

Much of the life is generated by the architect's intelligent use of light. This is apparent even in the deep planned dealing rooms and in all the circulation spaces. You feel that they have been carved from something huge and solid, almost castle-like. Yet there is no sense of hostility or defensiveness about the building, rather a sense of geometric and material richness that is achieved without any compromise or quotation from the past.

Botta has written about banks and architecture. "The high number of banks built over the last few decades have in fact sought for a neutral, 'international' image using typological patterns already widely tried and tested. The local reality, the historical and geographical context, the peculiarities of the site have often been disregarded in favour of the functions and mechanisms of banking . . ."

However, he does not ignore the mechanisms that make banks function. In fact he enriches these relatively mundane processes by giving the bank a specific and strongly personal identification.

The bank should be highly praised for its act of enlightened and intelligent patronage. They have acquired an intriguing building that is in a different league from most commercial office buildings.

Also, I particularly admire his own new tower of offices and appartments which is under construction in Lugano. It is a huge circular tower of brick that looks like a castello in a Piranesi engraving. I found it intensely exciting to walk into the brilliantly lit central hall and then to climb to the maestro's office which is beneath a giant coffered vault on top of the tower.

What will we make of the cathedral that he is designing for Paris or the museum of contemporary art to be built in San Francisco? His range is widening and his talent seems to have burgeoned with his growing workload.

Lugano offers the chance to see a great deal of Botta's work (and the Tourist Office publishes a useful small map of local modern architecture) but it is the bank that marks a powerful peak in his career.

Talich Quartet

WIGMORE HALL

The Talich Quartet of Prague – formed in 1961, – is held by some to be the natural successor to the retired Smetana quartet. Certainly, the quality of the group's playing at the Wigmore Hall last night left one convinced that the claim is just.

For this, their first recital in London for many years (part of a UK tour, to be followed by further concerts at the Wigmore Hall tomorrow evening and Sunday morning), they chose to play three works by Beethoven. The first, the G major Op. 18, No. 2, brought immediate evidence of their civilised ease and warm relaxed tone, but a few niggles of intonation also, perhaps attributable to the summer heat of the hall.

The performance had a bewitching panache and sparkle and revealed a flawless understanding of the music's natural rhythm, pace and purpose. The textures of the first movement's development section were delicately etched and fascinating to follow; the admixture of Allegro music into the Adagio second movement expertly judged; and leader Petr Messiereur's treble triplets in the Trio nearly perfect.

The players rose to the challenge of the famous dramatic gestures in the "Serioso" quartet, Op. 95, with absolute authority. Their tone seemed now even more beautiful than before, scintillating without being showy, smooth without being bland, profoundly satisfying and essentially impossible to describe. I do not expect to hear a better account of the Allegretto second movement, nor could their measure of the whole work be faulted in any way. Their interpretation, utterly poised, utterly precise and utterly flowing, of the F major quartet Op. 135, Beethoven's last, afforded an equally intense pleasure. The music was allowed to speak and breathe and be. Nothing was forced; everything was gained.

Paul Driver

NEW OPERAS IN BRITAIN

Clarissa

THE COLISEUM

Robin Holloway's *Clarissa* was, before Friday, the missing link in the British opera chain. Composed in 1976 – on Holloway's own libretto, in an amazingly short time, out of personal necessity – it was then rejected by the leading British opera companies. There is shame in the delay, since *Clarissa* is by every kind of reckoning an important work, but also at least a measure of honour in its belated English National Opera premiere (sponsored by the David Cohen Family Charitable Trust).

The event proves that the opera is worth doing. More, and tardily as may be, it reveals a genuine lyric-theatre visionary in love with the medium and filled with the excitement of exploring many of its most enriching possibilities. The failure to mount *Clarissa* at the proper time means that the further exploitation of Holloway's gifts has been delayed.

It was odd to sit listening to this work, very much a young man's opera in its enthusiasms and impracticalities caused by over-ambitiousness, and recall that in the concert hall Holloway has already turned his experience into that of a mature master. In spite of the 13-year setback, the same must surely now happen in the opera house.

There are many things about *Clarissa* – its revival of late-Romantic musical usages not least among them – that must have seemed worrying in the mid-1970s, when the idea that modern music should follow the Boulezian way forward still held sway, and when the term 'post-modern' had not yet been coined. But Holloway's most remarkable achievement is to revive the notion of the symphonic orchestra as the main arena of dramatic development – a vast sound-ocean of symphonic cross-references, colours, subordinate forms, and sensibilities inherited directly from Wagner and Strauss.

The opera was dedicated (with permission) jointly to Britten and Tippett, and their marks of influence are everywhere on the work's soundworld, as are those of Debussy, Ravel, Mahler, and Berg; but it is from Wagner's and Strauss's articulatory modes and methods that *Clarissa* derives its peculiar thrust and character.

It is an extraordinary melange, this elaborately fashioned neo-Romantic structure teeming with familiar images newly cast and intimately related – the more extraordinary since its European inclusiveness of vision is spoken, as it were, with a distinctly English accent in word-setting (down to the rum-ti-tum compound triple metre).

Right from the start there have been people unable to cope with Holloway's attitude to past music: loved, possessed, borrowed, at times simply stolen. To them, *Clarissa* will prove a wholly embarrassing, indeed shameless score. To others, its language swiftly coalesces into pure Holloway, made the more curiously individual – and, more than that, coherent – by the superficial familiarity of its idiom.

As a vehicle for portraying complex psychological and emotional states, larger-than-life characters and conflicts, it seems a language marvellously well adapted to opera in general and particularly to *Clarissa* – or rather, to the essence boiled down from Richardson's immense novel. Holloway has written (in this month's *Opera*) of his being drawn to *Clarissa Harlowe* "because its core is so simple and drastic – man wants girl, she resists, he rapes her, she dies – and the characters so over-lifesized; both suggest a vital role for music." This is an opera that does indeed need its music: its dramaturgy is organically developed from its musical processes, and therefore, *in situ*, utterly logical.

Where, indeed, the experience may be accounted problematic is in its excess of music, particularly in the over-long first (of two) acts, with its unvariedly paced 'debates' for Clarissa and Lovelace; the ending is drawn out to the point where its heavenly vision verges dangerously on kitsch. This is the usual fault of operatic first-timers: the failure to call a halt before more becomes less. When so much about the work is right, and memorable, it is one easily forgiven.

In David Pountney's production (designed by David Fielding, with brilliantly original use of Ian Spink's choreography and Second Stride dancers), the fault becomes emphasised. For all its Pountneyesque high theatricality in array of images, its dazzling fluidity of stage animation in the Act 1 finale, this Big Show gives often the impression of paying insufficient heed to the nature of the score.

Clarissa, a work of song and dance, action and reverie, inner and outer worlds simultaneous and inextricable, can hardly be imagined in a naturalistic period production; but I can readily imagine it in one keener to promote the audibility of Holloway's words, more confident in the innate expressive powers of the leading singers. The fussy enactment of Lovelace's long monologue at the start of Act 2 is maddeningly typical; the very end is near to send-up.

Vivian Tierney in Clarissa

Mixed gratitude, then. But gratitude pure and unstinted for Oliver Knussen's inspired conducting, omni-competent, absolutely sure of idiom and style; and for Vivian Tierney's radiant, candid soprano and unforced presence in the title role and Graeme Matheson-Bruce – on Friday not in best voice but still admirably brave and bold – as an heroic-tenor Lovelace (in comparison, and in terms of tessitura, Strauss's Bacchus is child's play). In smaller roles Rosa Mannion, Jill Pert, Justin Lavender, Peter Sidhom, and the fire-eating Toby Davies stand out in a large and very fine cast.

Not least among ENO's achievements is to convince one that wholly different *Clarissa* productions are not just possible, but greatly desirable.

Max Loppert

Tornrak

NEW THEATRE, CARDIFF

John Metcalf's new opera was premiered by the Welsh National Opera on Saturday in a co-production with the Banff Centre for the Arts. The subject, based on fact, is the clash between Inuit Eskimo) culture and Victorian society.

On a ship exploring the Canadian Arctic in 1850 Arthur, a sailor (tenor), is discovered to have been there before: the opera is his narration of past events. The only survivor of a shipwreck, he was saved and protected by the Inuit Milak (mezzo soprano), similarly the sole survivor in her community of disease spread by British traders. The two lost souls come together, are found by an explorer and taken to England, where Arthur takes to drink and Milak to prostitution and sheep-stealing.

Back in the present, Arthur dies an Inuit death on board ship, calling on Milak's "tornrak," or animal guardian spirit (a giant white owl) to release him from the burden of life.

This was an evening in which composer, librettist and production team knew precisely what they wanted to achieve, and set about achieving it in a businesslike manner, which cannot be said with confidence of every new opera one sees, certainly not of Metcalf's previous full-length work *The Journey* (Cardiff, 1981). Here he has the advantage of a fine libretto by the playwright Michael Wilcox, economically written in plain English, though some passages in the first act are in, as Glyndebourne would put it, 'the original Inuktitut,' which 'sings' like Finnish.

Metcalf has responded with similar economy: the quite complex narrative is despatched in two acts of under an hour each. Good sea-and-storm music, then, good frozen-waste music (high strings, celeste), create a natural theatrical pace. No scene lasts a moment longer than it needs to again, of how many contemporary operas can that be said? The growing love of Milak and Arthur is suggested by just one hugely eloquent Bergian string phrase: no more, no love duet, but it works and it is enough.

Tornrak is authoritatively conducted by Richard Armstrong and quite brilliantly directed by Mike Ashman – his best work since the WNO *Parsifal*. The contributions of Bernard Culshaw (sets), John Pennoyer (costumes), Lea Schaetzel (movement) and Michael J. Whitfield (lighting) add up to a riveting spectacle in the Arctic scenes with the simplest of means: a polar bear, ingenious use of Black Theatre techniques for Tornrak emanations, a sense of limitless space on a small stage.

If the scenes in England are less striking, it is perhaps because the Victorian underbelly is too soft a target for making comparisons between natural and alienated human society, though the contrast between the heroic battle with the polar bear and the callous shooting of its brown cousin in the fairground certainly makes its point.

David Owen as the shipwrecked sailor Arthur in Tornrak

There are excellent performances of the central roles by Penelope Walker and David Owen, whose ring-eyed, haunted appearance at curtain-rise gets the evening off to a powerful start. An absorbing, thought-provoking and very approachable new opera.

Rodney Milnes

The Wild Duck

PHOENIX THEATRE

Joan Greenwood and George Cole turned *Hedda Gabler* into a drawling drawing-room comedy in the early 1960s, and very effective it was. Advance notice of the Peter Hall Company's *The Wild Duck* – apart from the sacking of two rabbits on tour, one of which showed proper thespian tendencies by myopically bumping into the walls – suggested that Ibsen was again being reinterpreted as comic, borne out by articles from the director himself doughtily championing the great Norwegian's humorous potential.

In the event this looks like the rather desperate rationalisation of the lightweight trivialisation of a classic which was bound to get titters, deliberate or not.

All turns on the central relationship: Hjalmar, blandly egocentric, covering his total incompetence in life with high-flown fantasies about his non-existent "invention" and quest to restore the family name besmirched by his dotty old father; and Gregers, the rigid moralist whose actions – which reveal an adulterous relationship that both wrecks Hjalmar's marriage and leads to a child's suicide – smack more of the romantic novelists' dreams of ennobling purgation than of serious ethical awareness.

As the self-deluding Hjalmar, Alex Jennings trips his usual tightrope between winsomeness and whimsicality, too conscious of turning in a comic performance. From his very walk, a mixture of the tentative and the self-important, he gives a calculatedly technical display that cries out for the right TV sitcom frame.

So, in a totally different style, does David Threlfall as the unwittingly destructive idealist. Made up to look like a cross between Svengali and Rasputin, Mr Threlfall is in his naturalistic mood, with casual throwaway delivery and final lapses into his native northern tones.

He is not remotely convincing as the advocate of absolute morality, merely a slightly tramp-like figure who forfeits dignity every time he opens his mouth and finally emerges as inane. The two scarcely inhabit the same theatrical convention.

As Gina, discarded housekeeper-mistress to the rich man whose clandestine charity so outrages her self-righteous husband, Nichola McAuliffe gives an indication of how an earthier approach might have worked.

Touchingly muted (unusually so for this actress), she begins as a cockney drudge but achieves a painful comedy when, motherly and practical, she offers coffee, breakfast and underpants towards Hjalmar's melodramatic decision to leave home.

The calm, stricken resignation over her dead child transforms the play and makes the last moments moving; perhaps the traditional way with Ibsen is best after all.

The tilted floor and austere panelled interior of John Bury's set is plain beyond the call of nineteenth century Scandinavia.

The final impression is decent and dull, though Maria Miles' child Hedvig, refreshingly direct and unsentimental, is touching; and Terence Rigby's sceptical doctor deals with the best of the new translation (by Sir Peter Hall and Inga-Stina Ewbank) – natural, immediate, direct – so as to set an example to his colleagues.

Martin Hoyle

ARTS GUIDE

May 18-24

MUSIC

London

Murray Perahia (piano). Franck, Schumann, Chopin, Liszt. Royal Festival Hall (Mon) (928 8800).
The Philharmonia conducted by Roger Norrington, with Christian Zacharias (piano). Beethoven. Royal Festival Hall (Wed) (928 8800).

Paris

Maurizio Pollini (piano). Schumann, Chopin (Mon). Salle Pleyel (45638873).
Tom Krause, recital (Mon). Salle Gaveau (45632030).
Jean-Claude Pennetier (piano). Haydn, Schubert, Brahms (Tue). Théâtre des Champs Elysees (47203637).
Radio France Philharmonic Orchestra and Choir, conducted by Marek Janowski. Schoenberg's Moses and Aaron (Tue). Chatelet (40282840).
Quatuor Muir. Schubert, Janáček (Wed 7pm). Auditorium des Halles (40282840).

Brussels

BRT Philharmonic Orchestra conducted by Karl-Anton Rickenbacher, with Jean-Claude Vanden Eynden (piano) playing Bruckner and Franck. Maison de la Radio (Thur).

Antwerp

Royal Flanders Philharmonic Orchestra with Mayumi Fujikawa (violin) and Vladimir Viardo (piano). De Singel (Tues).

Kortrijk

Cleveland Quartet plays Beethoven, Dvořák and Hayden. Koninklijke Stasschouwburg. Theaterplaats (Mon) (056-20 30 00)

Rome

Wagner's *Siegfried*, conducted by Giuseppe Sinopoli in a concert performance with Kurt Rydl, Hans Sotin, Siegfried Jerusalem and Barbara Carter (Wed). Auditorium in Via Della Conciliazione (6541044).

Milan

Recital by Peter Dvorsky (tenor) accompanied by Ludovit Marcinger (Mon). Teatro alla Scala (80.91.26)

Venice

Alexei Sultanov (piano) plays Mozart, Chopin, Rachmaninov, Prokofiev and Liszt (Tues). Teatro la Fenice (5210161)

Madrid

Madrid Symphony Orchestra conducted by Jose Ramon Encinar, with Victor Martin (violin). Breton, Turina, Liszt (Tues). Auditorio Nacional de Musica (337 01 00).
Hugo Geller (guitar). Turina, Giuliani, Brouwer, Piazzolla, Dyens (Thur). Auditorio Nacional de Musica (337 01 00).

Barcelona

Maria Joao Pires (piano). Mompou, Mozart, Chopin, Schubert (Mon). Palau de la Musica Catalana (301 69 43).
Old Music Festival. Christophe Coin (cello), Patrick Cohen (pianoforte). Beethoven (Tues, Thur). Different programmes. Fundacion Caja de Pensiones (317 57 57).

New York

Los Angeles Philharmonic conducted by André Previn. John Harbinson, Rachmaninov (Tue). Carnegie Hall (247 4700).

Orion String Quartet. Bach (Wed). Merkin Hall (362 8719).
New York Philharmonic conducted by Erich Leinsdorf. Strauss, Schumann, Bizet-Shchedrin (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

Washington

National Symphony Orchestra conducted by Yuri Temirkanov with Luigi Alberto Bianchi (violin). Liadov, Tchaikovsky, Shostakovich (Tue). Kennedy Center Concert Hall (467 4600).
Los Angeles Philharmonic conducted by André Previn. Beethoven, Shostakovich (Wed). Kennedy Center Concert Hall (467 4600).

Chicago

Chicago Symphony Orchestra conducted by James De Preist with Jeffrey Siegel (piano). Adams, Rachmaninov, Bartok, Lutoslawski (Tue). Michael Morgan conducting, Joshua Bell (violin), Steven Isserlis ('cello), Jeffrey Kahane (piano). Haydn, Beethoven, Crumb, Falla (Thur). Orchestra Hall (435 6666).

OPERA AND BALLET

London

Royal Opera, Covent Garden. The unhappy revival of *Il trovatore* in Piero Faggioni's production has Carol Vaness, Eva Randova in leading roles, and Edward Downes as conductor (240 1066/1911).
Royal Ballet. Programme changes at Covent Garden mean that the Royal Ballet will be showing a double bill of *A Month in the Country* with *Song of the Earth* on Mon.
English National Opera, Coliseum. The premiere of Robin Holloway's *Clarissa* (based on Richardson's novel) is conducted by Oliver Knussen and produced by David Pountney. *The Marriage of Figaro*, in Jonathan Miller's much-revived production, brings back Valerie Masterson, Lesley Garrett, and Ethna Robinson as ENO Mozartians. *Ariadne on Naxos* is graced by the formidable sopranos of Anne Evans (Ariadne) and Rita Cullis (Composer) (836 3161).

Paris

Paris Opéra. *Jeunes danseurs de l'opera*. Extracts from romantic period ballets (47425371).

Brussels

Monnaie Opéra in Janáček's *The House of the Dead*. (Tues, Thur).

Berlin

Opera. *Der Troubadour* is a production by the late Herbert von Karajan. *Siegfried* and *Götterdämmerung* are both part of the Götz Friedrich cycle. *Aida*, *Fidelio* and *Die Zauberflöte* are also offered.

Hamburg

Opera. The new John Neumeier ballet *Träumer* was well received, and a Nijinsky gala closes this year's ballet festival. *Fidelio* will be conducted by Nikolaus Harnoncourt. *Arabella* has a strong cast led by Olive Fredricks and Felicity Lott. The Harry Kupfer *Tannhäuser* production is a success.

Cologne

Opera. *La Traviata* has Maria Spacagna, excellent in the title role. Rossini's operas *La Cambiale di Martrimonio*/*Il Signor Bruschino* are one act. Josef Protschka repeats his performance in the title role in *Faust*. *Tristan und Isolde*, conducted by Ralf Weikert, is the highlight of the week.

Bonn

Opera. *Die Fledermaus* has a strong cast led by Ludwig Baumann and Pamela Coburn. There is a new *Rheingold* production. Also in repertory: the lively *Barbier von Sevilla* production and a Marilyn Horne Lieder recital with songs by Handel, Schubert and Viardot.

Munich

Nabucco, produced by Pet Halmen has its premiere this week.

Milan

Teatro alla Scala. Scala Ballet company in *e Cosi Via*, with music by Jacques Charpentier. (80.91.26). Gianandrea Gavazzeni conducts Keita Asari's production of *Madama Butterfly*, with sets by Ichiro Takada and dances performed by Hideju Kanzaki. Opening this week is a new work by Azio Corghi (80.91.26).

Rome

Teatro dell' Opera. Aprile Millo, Alberto Cupido and Paolo Coni give excellent performances in a disappointingly conventional production of Verdi's *Luisa Miller*, conducted by Roberto Abbado.
The Kirov Ballet in Oleg Vinogradov's version of *Swan Lake*, conducted by Alberto Ventura, with costumes designed by Gianni Versace (46.17.55).

Florence

Maggio Musicale, Teatro della Pergola. Giulio Chazalettes's production of Donizetti's *Parisina*, based on Byron's poem is conducted by Bruno Bartoletti (2479651).

New York

American Ballet Theatre. The 50th anniversary season includes Sir Kenneth MacMillan's *The Sleeping Beauty* and an all-Antony Tudor evening with *Dark Elegies* and *The Leaves are Fading*. Ends June 30. Opera House at Lincoln Center (362 6000).

Tokyo

Chengdu Sichuan Chinese Opera. *Hibiscus Fairy*. Spectacular traditional Chinese opera company. Opens Tues. National Theatre. (580 0031).

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday May 21 1990

Labour and the economy

IN PLACE of the longest suicide note in history, the Labour Party's Policy Review of 1989 was perhaps the lengthiest recantation. The Party was prepared to sup from the market dish, if with a long spoon: "the economic role of government is to help make the market system work properly where it can, will and should – and to replace it where it can't, won't or shouldn't." Or, as its latest draft policy document remarks, "the market can be a good servant, but is often a bad master".

In such remarks, the Party still shows blindness to what markets are. A market is not an imposition upon the people; it is a name for exchange among them. If the market is a servant, so are the people – and government is the master.

This failure of understanding matters, but it no longer taints all aspects of policy. On the contrary, acceptance of the market, of many of the Conservative Government's reforms of labour relations, of most of its privatisations and of the limited room to increase public spending are all homage, however unwilling, to the Prime *Minister. Even Labour's new* found enthusiasm for Europe may owe as much to Mrs Thatcher – and the sight of Mr Delors standing up to her – as to a deeper conversion.

On macroeconomic policy, the Labour Party starts with a commitment to curbing inflation via membership of the exchange rate mechanism of the European Monetary System. At the same time, growth of public spending is to be limited to what "Britain can afford", while any additional revenue from proposed changes in taxation is likely to be exhausted by just two relatively firm public spending commitments: uprating of child benefit and pensions. None the less, the Labour Party has a long list of dreams for more spending (as, indeed, do the spending ministers in the current Government).

Increased spending

Since the "peace dividend" is likely to be only a modest proportion of gross domestic product, a large increase in public spending would require a substantial increase in the deficit or significantly higher taxation than now proposed. Failing a rapid increase in household savings, lower government savings, combined with the ERM's squeeze on corporate profitability, would mean lower investment (contrary to Labour Party desires) or a bigger current account deficit than that the UK now boasts.

In short, the macroeconomic scene will be quite bleak. Are Labour Party initiatives at the microeconomic level likely to be more successful? Here the Party appears as both Dr Jekyll and Mr Hyde.

Training ideas

The ideas for training are sensible, though they will produce no rapid transformation of British economic performance. Those on minimum wages and trade union reform are *far more questionable*, however, especially since the performance of the labour market hardly suggests that trade unions are deeply enfeebled.

Industrial policy is another curate's egg. The new ideas for regional policy are defensible, those for limitations on mergers arguable, but those for a return to corporatist notions of "partnership", exemplified in the new National Investment *Bank, are highly doubtful.*

Yet what matters far more than such specific intentions are the fundamental prejudices with which ministers approach their daily crises. Mr Smith, for example, would fit comfortably into a long line of prudent Labour chancellors.

The main questions are elsewhere. It is easy to declare allegiance to market forces on Sundays. For reliance on the market becomes an issue only when people must lose their jobs. When in the last ten years did the Labour Party accept such a verdict? What, for example, has it been saying about the white elephant at Ravenscraig?

If a Labour Government refuses to accept the judgment of the market when things get difficult, as they will, it will move ineluctably towards defensive interventionism, as in the 1970s. Because of EC membership that shift would reverse one of the present Government's main achievements, its support for an outward-looking Community. Given the significance of the EC and the tenuous equilibrium of the world trading system, that alone makes the Labour Party's fundamental predispositions worth worrying about.

A new deal on dumping

THE EUROPEAN Community is to be commended for its decision to accept the finding by the General Agreement on Tariffs and Trade that its rules against circumvention of anti-dumping duties are illegal. To have blocked this finding would have implied scant regard for the multilateral system at a crucial time in the Uruguay Round of talks on trade liberalisation.

By accepting the finding, the EC is obliged to follow through with serious negotiations on reform of Gatt's anti-dumping *rules. Otherwise, its refusal to* change its legislation to comply with the Gatt finding until after the Round would smack of hypocrisy.

The Gatt allows its members to impose extra duties on imports that are being dumped - sold at a price that is below cost or lower than that charged by the exporter in his home market. Economists are rightly suspicious about the validity of this argument for protection. But the safety valve of anti-dumping duties is a political necessity. Without it many countries would be unwilling to commit themselves to open markets.

There is no question of removing this right. What is urgently needed, instead, are new rules to prevent the surreptitious use of anti-dumping duties for general protection rather than as a defence against what might be reasonably regarded as predatory behaviour.

During the late 1980s, the European Community put particular emphasis on anti-dumping as a means of countering the apparent threat to its own industry from products manufactured in Japan and other Asian countries. To do so it indulged in sleight of hand in *designing* the formulae which it uses to calculate dumping margins. It was thus able to find dumping rather too easily.

Sleight of hand

Countries like Hong Kong and Japan have been seeking relief from such treatment by calling for tighter and better-defined technical rules to prevent such abuse. Their case has been reinforced by the growing, apparently indiscriminate, use of anti-dumping duties by developing countries such as Mexico.

Until now, however, the Community has been reluctant to negotiate seriously. Its overriding concern, like that of the US, has been to retain international endorsement of its right to prevent circumvention of its anti-dumping duties by companies switching final assembly to "screwdriver plants" in its domestic market.

Illegal duties

The Gatt Council confirmed last week that duties applied by the EC on such products are illegal. They count as internal charges which discriminate against foreign companies because they are not applied to domestic producers. The US, too, has anti-circumvention regulations. They, too, are controversial although they have never been challenged in the Gatt. Like the EC, it is also sometimes accused by foreign exporters - and even its own consumers - of operating its anti-dumping rules in a way that is tilted in favour of protection. Last year's case against ball-bearings even covered items not manufactured in the US.

There is a natural trade-off between the positions of the US and EC and those of the Asian exporting countries. If the former were to concede tighter rules on how anti-dumping procedures were to be applied and dumping margins calculated, the latter could accept reasonable anti-circumvention measures. Tighter procedures would lead to a fall in the number of anti-dumping cases in the trading system. Those that were left would be more clearly concerned with predation. *In such cases* it would be reasonable to back up duties with stiff additional anti-circumvention penalties.

Negotiating such an accord in the Uruguay Round will not be easy, but the choices facing the EC are now limited. Without a willingness to tighten up its own anti-dumping procedures, it will have nothing to offer in return for the right to anti-circumvention measures which it says it badly needs.

David Marsh reports on transition problems ahead for the uniting Germanys

A gamble with nations at stake

"In spite of general yearning for reunification of today's torn Germany, many of our people – including the refugees – are worried that the merger, together with the efforts accompanying it, would bring an intolerable reduction in living standards." (Ludwig Erhard, West German Economics Minister, September 1953.)

"We won our sovereignty on November 9 – and we are giving it away on July 2." (Walter Romberg, East German Finance Minister, May 1990.)

The D-Mark sweeps into East Germany on July 2 on a tide of hopes and fears. Economic and monetary union between the two Germanys represents a state merger on a scale previously attempted only through war or annexation, on financial terms as audacious as in a highly-leveraged stock market takeover.

Mr Helmut Kohl, striving to become Chancellor of a united Germany in all-German elections possibly in December or January 1991, is playing for the highest of stakes. Mr Kohl's Government believes that the costly absorption of East Germany into a greater Germany will more or less finance itself during the next five years through a growth-induced increase in tax revenues. Buoyed up by West Germany's high real growth rate of 4 per cent, the Chancellor is banking on German unity generating a supply- and demand-side boom which will benefit the whole of Europe.

But if East Germany and its people prove resistant to the medicine of market economics, the process could come badly unstuck. One important question is whether the Bundesbank will be as successful in promoting monetary stability in a united Germany as it has been in the Federal Republic.

Bonn's calculations could also be disrupted by any downturn in the world economy, as well as by a wors*ening in the position of Mr Mikhail* Gorbachev. With an ear cocked to the rumblings from the Kremlin, Mr Kohl now uses a folksy, but ominous, analogy to justify pressing ahead towards full political unity: "We must gather in the hay before the storm."

The replacement of the East Mark, the liquidation of East German economic planning (including the central bank), and the adoption of West Germany's legal, fiscal and social system mark a transition of epic proportions. Leaving behind the dictum of "no experiments" which guided economic policies for four decades, West Germany appears to be embarking on a monumental gamble. In reality, it has little alternative.

The economic and monetary union treaty between Bonn and East Berlin was signed on on Friday just three breathtaking months after Mr Kohl proposed negotiations in February. The thrust has come less from a Bonn power-play than from the East Germans' craving for western living standards after 40 suppressed years of communism. After the November 9 breaching of the Berlin Wall, the momentum became self-fuelling.

It was fear of a futher tide of East German emigrés that motivated the concessions by Mr Kohl's Government over the conversion rate of the East Mark – set at 1 to 1 for the bulk of East German savings accounts.

Some of the fruits of capitalism will be bitter. According to Mr Günther Krause, the East Berlin state secretary in charge for the past few weeks of monetary union negotiations with Bonn, only 32 per cent of East German companies will be capable of surviving without help once the D-Mark is introduced. Roughly 54 per cent are making losses and will need credits and subsidies, while 14 per cent look set to go bankrupt.

Bonn officials estimate that industrial enterprises will have to shed a third of their staff, while in agriculture, two-thirds of the workforce will be laid off.

Productivity is only 40 per cent of that in West Germany. But, with labour mobility high after the dismantling of the East-West German border, it will be impossible to maintain very low relative wage rates in East Germany. As a result, unemployment in the short to medium term is likely to total about 2m, 20 to 25 per cent of the labour force, compared with roughly 100,000 now.

"This is the peaceful acquisition of a country which was on the verge of falling to pieces," says Mr Michael Stürmer, head of the Bonn-backed policy think-tank Stiftung Wissenschaft und Politik (SWP). But he adds: "We will face a valley of tears in the next 24 to 36 months."

Although Mr Stürmer believes the exercise will succeed, he warns against any illusions. "If, after three years, mass unemployment in East Germany does not decline, but remains in the millions, then the burdens on the West German taxpayer would increase, and so would the discontent."

The sudden shift to market economics in a country which has been under totalitarian rule since Hitler's takeover in 1933 is an unprecedented challenge. "We know how to do heart transplants, kidney transplants, liver transplants," says Mr Gerhard Fels, *director of the Institut der deutschen* Wirtschaft, the Cologne-based employers' economic research body. "But here, we are changing all the organs at once."

"We could not have been prepared for it – there is no blueprint," says Mr Wilfried Guth, supervisory board chairman of the Deutsche Bank. He believes – like Mr Kohl – that East Germany will prosper within five years. "But the complexity is overwhelming." Compared with other formerly communist countries such as Poland, which have no choice but to tighten their belts, Mr Guth points out that East Germans are likely to have "exaggerated expectations" about the benefits of unity.

These expectations are forcing the Bonn Government along a political tightrope. It has simultaneously to nourish East German desire for prosperity but dampen deep concern among West Germans that tax increases or cuts in living standards will be needed to pay for it.

Somewhat incautiously, Mr Theo Waigel, the Finance Minister, has tried to parry demands for extra money to support East Germany's post-July 2 social security system by stressing the uncertainties involved.

"Only a soothsayer or a swindler can estimate the costs of German unity," he said last week. Not surprisingly, the financial markets have reacted nervously to such lack of precision, with both Frankfurt shares and D-Mark bond prices falling steadily last week. West German government bond yields are now more than one full percentage point higher than at the start of the year.

In fact, the extra costs to the West German public sector (including the social security system) resulting from German unity are unlikely to be more than some DM50bn a year. This includes start-up contributions to

The challenge of unity

	W Germany	E Germany
Population (1988)	62.4m	16.4m
Real GNP (W Germany=100)	100	10.5
Employment (1988)	26.0m	8.6m
Life expectancy	73 years	75 years
Labour productivity (W.Germany =100)	100	40
Average gross monthly wage	DM3,300	East Marks1,100
Per cent of households with cars	97	52
Per cent of households with telephones	98	7
Per cent of households with colour TV	94	52
Per cent of households with automatic washing machine	76	10

Sources: Council of Economic Advisers, Institut der Deutschen Wirtschaft, Julius Bär

East German unemployment insurance and social security funds, infrastructure measures, and grants and subsidies for industrial restructuring. Such figures are well within the financing ability of West Germany's DM2,000bn economy - as long as above-average growth continues.

Last year, total tax receipts of the central, Land (state) and local governments rose DM47bn, or nearly 10 per cent – a product of high economic growth as well as an increase in indirect taxes. This year's 4 per cent economic growth projection – including a "unity bonus" of about 1 percentage point – is expected to bring in extra tax revenues of DM12bn. According to the latest projections, the extra tax "windfall" in 1991 will rise to DM28bn, on the basis of real growth next year of about 3.5 per cent.

As part of a compromise with the Länder to obviate the need for tax increases or cuts in regional spending, Mr Waigel reached agreement last week on a DM115bn Unity Fund to raise money "off-budget" for East German reconstruction over the next four and a half years.

This is only a small proportion of the total private sector capital needed to rebuild the East German economy. The new East Berlin government estimates that DM450bn will be needed for housing and town planning alone. The Bonn government is anxious to encourage private sector inflows – both from West German companies and from foreign investors – to accompany public sector funding. The Economics Ministry last week outlined an investment allowance scheme to provide additional "top up" grants for firms investing in East Germany, and stressed that this was open to non-German companies.

The Unity Fund will sell bond issues to both domestic and international investors, and will also receive DM20bn directly from the central Government. Bonn aims for the fund to cover two-thirds of the East German budget deficit, projected at DM32bn in the second half of this year and DM53 bn in 1991.

These are large figures compared with Bonn's unusually low central government deficit of only DM19bn last year (rising to DM33bn this year). Reducing the East German deficit will depend crucially on how well West Germany's tax system can be spread eastwards. Value-added and consumer taxes are to come in from July 1, with income and corporation tax starting on January 1.

East Germans now pay only 15.8 per cent of wages in tax and social security – half the West German average of 33 per cent. For those East Germans still in work, the size of the new levies will come as a shock.

Bonn also hopes to garner East German budgetary proceeds of up to DM10bn in privatisation sales of East German state property and land. This will, however, depend on infusing new life into the moribund holding agency that controls East German state participations. Ownership rights also have to be cleared up over thousands of items of disputed land and property expropriated after the Second World War.

Among the stranger examples, the site of the East German Foreign Ministry belongs to a West German lawyer, while the Alexanderplatz TV tower is said to be on Swiss-owned land.

After some initial euphoria, West German businessmen have in recent weeks become much more cautious about East German prospects. Both Mr Hilmar Kopper, chief executive of the Deutsche Bank, and Mr Tyll Necker, president of the Confederation of West German Industry, have warned against over-valuation of state company assets.

The vehicles and aerospace conglomerate Daimler-Benz was among the initial rash of West German companies announcing East German joint venture agreements. But Mr Edzard Reuter, Daimler's chairman, now points to contamination on industrial sites – reaching 50 to 70 metres below ground – as one reason why western companies are hesitant to bid for land. Another Daimler excecutive last week called the general economic situation in East Germany "catastrophic".

There is no shortage of further obstacles. West German bankers are worried about the unresolved fate of the nominal 260bn East Marks of debt owed by East German enterprises to the banking system. At least 150bn Marks of these loans are unlikely ever to be repaid.

Strikes and protests by East German employees facing probable unemployment have multiplied. Western companies are starting to take a more critical view of East Germans' skills and training levels.

Some East German *Kombinate* were pinning hopes on long-term export contracts with the Soviet Union to tide them over coming difficulties. The Soviet Union will, however, need to pay hard currency for imports from East Germany, starting next year. As a result of Moscow's payments crisis, Soviet orders may now start to look like liabilities.

The best hope for successful economic union lies in the eagerly-awaited expansion of small and medium companies east of the Elbe. Rebuilding East Germany's industrial backbone will, however, take time and patience as well as the D-Mark. One Bonn official talks of "creative destruction" in the next six months. At the same time he admits: "It will be chaos."

A series on the challenge of German economic and monetary union will begin in the FT soon.

OBSERVER

Hurd in his element

■ Douglas Hurd obviously had other things on his mind as well as European political union at the meeting of EC foreign ministers in the wilds of County Kerry at the weekend. "Look at those seals," he told journalists who had assembled for a briefing amongst the rhododendrons in the garden at the meeting hotel.

Indeed there were seals in the bay below. There were also bulky men with sub-machine guns behind the bushes. The Irish police and army were taking no chances in the remote but beautiful countryside of County Kerry. Police boats patrolled the bay. The police were in every gateway for miles around.

Both Catholic and Protestant churches, expectant of EC attendances, were searched by sniffer dogs. But attendance at the Protestant service was limited to three – none of them a minister.

Sneem, where the meeting took place, seems a long way away from anywhere. Some EC journalists never reached their destination. Hurd seemed entirely relaxed. European political union? "I do believe that's another seal," said the Foreign Secretary.

Czech cherries

■ The Czechoslovak election is so far a good humoured one, except for the determination of all 22 parties to dump on *the 23rd – the Communist* Party. Calls have been made to ban it: none of the parties will join a coalition of which it is a member, and its election posters – claiming to support every good thing under the democratic sun – are often defaced.

The Party's choice of emblem is a bunch of cherries. These are not generally available in Czechoslovakia and the emblem has caused an outburst of ribald jokes. It may also yet give rise to the first wholly silent party political broadcast in the world.

The thought comes from Dr Milos Zeman, a Civic Forum candidate and an economist, whose wit has earned him the job of scriptwriter and presenter for many of CF's 60 second TV campaign spots. He plans to make one such spot consisting solely of himself sitting in front of a bowl of cherries, eating them and spitting out the stones.

Zeman has yet to convince his more serious-minded (and loquacious) colleagues of the merit of the idea. But it could start a welcome trend.

Vegetarian

■ Should the mad cow disease really reach a grisly end, the Consumer's Association is at hand. It has just published its Vegetarian Good Food Guide. Three per cent of the adult population is now vegetarian – more than double the figure in 1984. A further 5.5 per cent claim to avoid red meat.

London calling

■ There are times when one is abroad and the International Herald Tribune is the first real newspaper that comes to hand. One devours it avidly and thinks what a good paper it is – truly "global", as the ear-piece boasts. Yet it does have *a peculiarity. The IHT clearly* regards Britain as peripheral. I have been trying to work out whether this is more a comment on the paper than on the country. Probably it is a bit of both. But there must be *some* British news worth prominent coverage.

By my count, the last time the IHT had a front page story from London was on May 3. It was across two columns and was headed: "London Mugger gets £292 Million – But cashing in on haul is difficult, Bank says." I thought that we were having rather an interesing month.

"Admit it – I was right about school mince."

Capel man

■ Graham Axford, head of corporate finance at James Capel, has been waiting a long time to leave the stockbroker. Since last June, in fact, when he gave notice.

In this, he differs from Peter Quinnen, Capel's chief executive, who was clear of his desk before lunchtime the day he resigned. "I worked out my notice – *he* collected his year's salary and went," says Axford, *without bitterness.*

Axford is going to Power Corporation, a Dublin-based property group, as a consultant. He had previously advised the company on its flotation and the acquisition of stakes in the Trocadero site near Piccadilly Circus and the Ambassador Hotel in Los Angeles (the latter with Donald Trump).

The move to Power will slow down Axford's deal-making, giving him the odd week off – though he is already eyeing the UK property market for the deals which he says are becoming available. His reason for leaving Capel: "When we were all partners in the firm, you felt that what you did mattered – you were part of it. I don't feel that any more, though I still feel tremendously attached to the place. It's like a divorce." Since the 44-year-old Axford joined it, the corporate finance section has grown from five to 90 people.

Berlin lights

■ Soviet commercial officials in East Germany have decided to join their quick-moving German hosts in latching on to hard D-Marks.

The prominent Soviet Export *Exhibition in East Berlin's* Friedrichstrasse, which seldom stopped passers-by with its models of cranes, ice-breakers and earth-moving equipment, is presenting a new face.

"Come on in and have a glass of Sekt," a jovial West German, Norman H Becker, said last week, emerging from the Soviet exhibit. Becker's West Berlin company was celebrating the opening of its electronics show, after leasing the premises from the Soviet commercial department.

Just down the street, the vast Soviet Science and Culture Centre is earning hard currency by renting the facilities for West German fashion shows and variety performances. The business-minded Soviet director is planning to rent apartments in the building to Western companies, as *soon as he gets the green light* from Moscow.

Rural bliss

■ From a Sussex parish magazine: "Winners in the home-made wine competition were Mrs – (fruity and full-bodied), Mrs – (fine colour and delicate), and Miss – (slightly acid, but should improve if laid down)."

1992 THE EUROPEAN MARKET

Michael Skapinker on European efforts to prevent Japanese domination of the high definition television market

Battlelines drawn on the small screen

Thomson of France and Philips of the Netherlands are gambling FFr20bn (£2.15bn) on the untested proposition that Europeans are prepared to spend as much on a television set as they do on a small car.

As they confirmed last week, the two companies plan to use the money to bring high definition television (HDTV) to European viewers by 1995, providing viewers with pictures as sharp as those they are used to seeing in the cinema.

If they do not succeed in developing their own HDTV system, the two groups say, Japanese companies could eliminate European manufacturers from the world television market. The Europeans fear the Japanese could also exert a stranglehold over associated sectors such as TV production equipment, and could increase their dominance in a host of other industries from computer chips to automotive design equipment.

Today, Europe takes its battle to Düsseldorf, where the International Radio Consultative Committee (CCIR) begins its plenary meeting, during which it will attempt, for a second time, to establish a worldwide HDTV standard.

At the last CCIR plenary in Dubrovnik in 1986 European representatives managed to block the imposition of a proposed Japanese HDTV standard, arguing that it would have made the world's existing television sets redundant.

At this week's session delegates are expected to reach agreement on 27 aspects of a worldwide HDTV standard, including the dimensions of the screen and common shades of colour to be used. There is unlikely to be agreement, however, on the two most important issues dividing Europe from the Japanese: the number of horizontal lines to appear on HDTV sets and the frequency with which images are flashed up on the screen.

For the Europeans, continued deadlock in Düsseldorf will be good news. It will allow them more time, they believe, to shrink the impressive lead the Japanese have established in HDTV.

It was only after the Dubrovnik session that European electronics companies and broadcasters began to develop an answer to the high definition project which the Japanese had been working on for more than 10 years. The Japanese system, called Muse, uses 1,125 lines, with images flashed onto the screen 60 times a second. The Europeans objected that 1,125 is not a simple multiple of either the 625-line system used in conventional sets in Europe or the 525-line system used in the US and Japan. Furthermore, television images in Europe appear on screen at a rate of 50 rather than 60 per second.

The adoption of the Japanese system would not only have required the eventual replacement of all the world's television sets. Mr Peter Groenenboom, head of Philips's international consumer electronics division, adds that because the sharp pictures used on HDTV screens will have other applications, such as in computers, defence and medical technology, the Japanese could eventually come to dominate these sectors, too. High definition sets will also use large quantities of semiconductors, allowing Japanese chip manufacturers to strengthen their grip.

"HDTV will have an impact on every facet of economic life," Mr Groenenboom says. "This is why the Japanese have targeted HDTV as a key, strategic technology and have devoted so much energy trying to force their system onto others. They wish to dominate tomorrow's economic world."

It is still far from clear, however, that HDTV will ever become a commercial success for anyone or that high definition sets will consume more than a fraction of the world's semiconductor output. Mr Jonathan Drazin, an analyst with the consultancy Dataquest, believes that by the turn of the century the proportion of buyers who purchase an HDTV rather than an improved conventional set could be no more than 10 per cent. It is possible, he says, that by the year 2000 less than 1 one per cent of semiconductors used in Europe will go into HDTVs.

But companies such as Philips, already reeling from a sharp plunge in its profits, believe they have to proceed on the assumption that HDTV is going to succeed. Mr Jean Caillot, senior vice-president of Thomson Consumer Electronics, says that if Japanese companies manage to dominate the HDTV market, their European competitors could be reduced to screwdriver operations, producing sets under licence.

In developing their own system the Europeans argued that compatibility with existing sets was essential. HDTV should not deprive existing set owners of the ability to watch programmes.

European companies based their HDTV proposal on a system called Mac, developed by Britain's Independent Broadcasting Authority. Mac, a halfway house to HDTV, provides clearer pictures by sending black and white and colour signals separately rather than together. With the existing television systems, black and white and colour signals share the same wavelength, causing striped shirts to shimmer on the screen.

International television standards
NTSC (currently used in US and Japan): 525 lines.
Pal/Secam (currently used in Europe): 625 lines.
Mac (used for European satellite broadcasts): 625 lines, enhanced resolution.
Muse (Japanese high definition standard): 1,125 lines.
Proposed European HDTV: 1,250 lines.

Mac forms the basis of satellite broadcasts of the sort carried out by British Satellite Broadcasting. A European Community directive requires all official satellite broadcasters to use the Mac system. Although broadcasters such as BSB still provide a 625-line picture, the company claims its images are sharper than those of the Pal system used in the UK, West Germany and much of the rest of Europe, and of Secam, which operates in France and parts of eastern Europe.

European companies say that when a European HDTV standard is introduced, owners of Pal, Secam and Mac sets will still be able to watch programmes. Those who wish to see the clearer HDTV pictures will be able to trade up to a more sophisticated set.

Indeed, viewers might soon be able to obtain pictures close to those that will eventually be available from HDTV. Both Philips and Thomson plan to have Mac sets on the market by the end of the year which will, they say, provide a fair approximation of high definition pictures by doubling the number of horizontal lines.

Both the Thomson and the Philips sets will have a width to height ratio of 16 to nine, the standard expected to be agreed in Düsseldorf. Conventional television sets have a four to three ratio. With the new set, viewers will be able to see films in their original dimensions. At present, television companies have to broadcast films either cropped at the sides or with black lines at the top and bottom. Mr Caillot says that Thomson's set, to be introduced in France and then in the UK, will have a price tag of £3,000. When HDTV comes in, set owners will be able to receive true high definition pictures by buying a decoder.

If Europe's proposed HDTV standard is to win acceptance, it is essential that Mac gains some credibility first. If Mac does not become firmly entrenched, the leap to HDTV will be that much more difficult.

The unity of the European camp, however, is threatened from two quarters. The first danger comes from Mr Rupert Murdoch's Sky Television. Sky has managed to evade the requirement that satellite broadcasters use Mac because Astra, the satellite from which its pictures are transmitted, is officially designated as a telecommunications rather than a television satellite. By using Pal, Sky managed to launch its service 15 months before BSB, which suffered delays because of problems with its Mac technology.

A second threat to European HDTV has been the fear that an EC member might violate the satellite broadcasting directive and transmit pictures in Pal or Secam from an official satellite. On this occasion at least, it is not the UK which has proved to be the difficult European but West Germany. German broadcasters argued that by using Pal on their TV – Sat 2 satellite, they could reach more viewers in East Germany than by using Mac.

Mr Groenenboom said last month that "if this were to happen then, at a stroke, Germany would cut itself off from the mainstream of Europe." European electronics companies feared that a German insistence on using Pal could prove a grievous blow to Mac.

During a meeting in Paris last month, Mr Christian Schwarz-Schilling, Bonn's telecommunications minister, pledged to abide by the EC directive. Delegates to a European Broadcasting Union meeting in Stockholm say that when news of the promise came through, German broadcasters said they would still fight for the right to broadcast in Pal. Both Thomson and Philips say they are satisfied, however, that Germany will insist on Mac broadcasts.

It is not just the European television market which concerns Thomson and Philips. Through their American subsidiaries, the two companies account for a third of the US market for television sets. At the 1986 CCIR meeting the Americans gave their backing to the Japanese standard. As the world's leading producers of films and television programmes, the Americans said it was in their interest for a common standard to be accepted.

In Düsseldorf this week, however, the US will remain neutral. The Federal Communications Commission has said that it will decide on an HDTV standard for the US in 1993. It has stressed that any new system must not require existing TV owners to buy new sets, which appears to rule out adoption of Japan's Muse.

Philips and Thomson have already teamed up with the National Broadcasting Corporation to devise a system for use in the US. If they succeed in retaining a foothold in the European and American HDTV market of the 1990s the FFr20bn investment will look worthwhile. All they will then have to do is persuade viewers that the expensive new sets are worth their large price.

LOMBARD

The test of UK EMS intentions

By Samuel Brittan

Rumours of imminent full British EMS entry have now become so disruptive that the British Government would gain by giving a rough idea of its timetable.

The rumours do good in edging sterling upwards from a level which the Bank of England in its last Bulletin declared to be too low. The danger, however, is that any off-the-cuff comments by the Prime Minister which seemed after all to put off membership or revealed how profoundly she is still opposed to fixed exchange rates could give sterling a very bad knock. I can only hope that she has been forcefully briefed on this danger by advisers with alternative job offers in their pockets.

The bad side of EMS rumours is that financial markets see the EMS as a device by which the Government will reduce short-term interest rates for electoral reasons.

Mainstream Treasury opinion is still against joining the EMS until underlying UK inflation is seen to be moving downwards, which it hopes will be early in 1991. In that case the Intergovernmental Conference on European Monetary Union would begin in December with the UK not yet at first base. Domestically, the Treasury's inflation predictions are a triumph of hope over experience. Thus those ministers whose instinct is to join earlier, are right, but on certain conditions only.

If EMS entry is to provide a shock to inflationary expectations, rather than cheers for the soft money electoral expediency brigade, it needs to be near the bottom of a temporarily wide band – say 6 per cent on either side of D-Mark 2.90. Second, bankable guarantees need to be given about the narrowing of the margins to the normal 2¼ per cent by about the end of 1992. Otherwise, those who have urged membership on sound money grounds should dissociate themselves from the whole undertaking.

The question of British Government intentions is also raised by Sir Michael Butler's Report on Monetary Union for the British Invisible Exports Council. The packaging and summary of the report are full of buzz words designed to appeal to the Prime Minister, such as "subsidiarity", and "remaining accountable at the national level". There is also the little matter of "locating the chief operating arm of the European Monetary Fund in London." The report starts from the proposition that "if a (new) Community institution is not established, there is no need for a revision of the Rome Treaty". But as 11 out of 12 members have decided on such a revision, one must be devised "consistent with the UK's objectives". A European Monetary Fund is outlined, owned by central banks, but not quite a central bank itself.

There is still argument among British official advisers about the main task envisaged for the fund. This is the introduction of a "hard Ecu", which instead of being a basket would be defined to move with the strongest existing member currency. The new Ecus would be substituted for national currencies on demand but not,it is argued, add to the European money supply.

The hard Ecu would be a step forward if adopted by private financial markets; and Sir Michael has a legitimate point about the emptiness of the Delors Stage Two, designed to pave the way for full monetary union. But any British endorsement of anything like a parallel or "dual" currency, additional to the existing ones, would alienate the Bundesbank, the UK's main potential ally in applying the brakes on premature monetary union.

It would, moreveor, be little reassurance for people struggling with near double-digit inflation in ordinary pounds to know that ICI was making transfers to Belgian bankers in more stable hard Ecus.

The small print makes clear that the sterling exchange rate would be fixed within a very narrow band and realignments at least as difficult as within the existing EMS. The system will still be one of virtually fixed – and only in the very last resort adjustable – exchange rates. It would be of no service to anyone for the Prime Mininister to think that the EMS and EMU can develop on any other basis.

LETTERS

Action to help the heavily indebted nations

From Mr David Knox.

Sir, I read with great interest your editorial comment ("Solutions for the debt problem," May 16), particularly since your views are so close to those I tried to set out in a recent publication, Latin American Debt: Facing Facts.

I agree wholly with two points you make and very largely with a third. First, you are so right in stressing that in all heavily indebted countries debt relief has to come, depending on the country's circumstances and especially the structure of its debt, from both official and private lenders. In particular, it is high time we stopped thinking of the Latin American problem simply as one of relief by private creditors only.

Second, the International Monetary Fund and the World Bank have to play a much more positive role in helping debtor countries to work out the reforms in their economic policies that are essential to their recovery, but also in assessing with them the debt relief necessary to support those reforms and make them economically and socially feasible and politically palatable.

As you say, their role has to be analogous to that of domestic bankruptcy courts. But they do not have the powers to enforce enjoyed by those courts. That is why we have to accept the idea, distasteful as it is, that in the last analysis those judgments can be enforced only by the debtors through a default.

Finally, there is your point that the IMF and World Bank, and I would add the other international financial institutions, should not be asked to give relief. I would very much like to agree with this since I share fully your view that we should not imperil the IMF's role at the heart of the international financial system nor the World Bank's ability to provide loans on the best possible market terms. I fear, however, that the debt structure of some countries may not allow this unless special arrangements are made to handle their debts to the international institutions.

David Knox,
Knights Barn,
Manor Farm Lane,
East Hagbourne, Oxfordshire

From Ms S. Griffith-Jones.

Sir, William Rhodes argues ("Reworking the Brady Plan," May 4) that new bank lending ("new money") should play a far greater role in the plan's implementation than it has until now.

The argument has two key problems. First, the vast majority of banks do not wish to increase their medium and long-term exposure to developing countries; this was recently shown by their unwillingness to put up substantial money for the new Mexican package. Most bankers – both in public and private – say candidly that they do not wish to lend more in other cases.

Secondly, medium-term bank lending, especially at variable interest rates, is not a good way to fund the long-term development of most low or middle-income countries. As the experience of the 1970s and 1980s has demonstrated, excessive borrowing from banks by developing countries can have very problematic effects both for the debtors and the banks.

National savings, foreign direct investment and official flows (and particularly the former) are the best way to fund development. Naturally, private bank lending for specific purposes, such as trade credit project finance can play a valuable role, but this is very different from balance of payments finance.

If at present substantial new money from banks is both unlikely and undesirable, for most developing countries, then the need to encourage debt reduction becomes clearly the main way to free developing countries' resources to finance higher levels of investment and growth recovery. There may be some banks which wish to increase their exposure; there may be some indebted developing countries that wish to increase bank borrowing significantly (and that could perhaps afford to service these debts with very rapidly increasing exports). But these exceptions would only confirm the general truth that in most cases new bank lending is unlikely and undesirable.

Stephany Griffith-Jones,
Institute of Development Studies,
University of Sussex,
Brighton, Sussex

Fighting the office raider

From Mr Ray Shuttleworth.

Sir, Your report ("Midland offers staff counselling," May 8) regarding improvements in aftercare counselling following bank robberies, belies the sheer scale of the problem. There are about five office raids every working day.

A vast range of preventive measures should be introduced in support of a policy of passive resistance to raiders.

The introduction of time-lock safes, rising screens and more sophisticated surveillance techniques has been highlighted in the code of practice currently under consideration by the Government.

The banks and building societies must do the decent thing by the general public and by their staff. This means that they have got to agree to work together on an industry-wide basis.

Ray Shuttleworth,
Assistant Secretary,
Banking Insurance and Finance Union,
49 Queen Victoria Street, EC4

The protection of pensioners' rights

From Mr A. Mowlem.

Sir, Your editorial comment ("Whose pension surplus?", May 10) on the ownership of pension fund surpluses is timely. Gone are the days of benevolent employers doing their best for their former employees. What we have now is a generation of desperate managers casting around for any prop to shore up failing profitability. That search now focuses on pension schemes where the pickings are fat and apparently available.

This is even more marked where the contrast between the failings of the enterprise and the success of investment outside by the pension funds pressures the company to devise routes into the surpluses. Unfortunately it is usually the case that the boards of trustees are furnished by the very business that intends to raid the assets. They also have access to all the data, deeds and legal talent to work out the method of plundering.

Who or what protects the rights of the pensioners? The trust deed is intended so to do but is drawn up by the company and administered by its nominees. How can the pensioners pursue their rights when getting hold of the facts is difficult and access to legal advice in this esoteric area beyond their pocket?

Besides the legal cost, there are other serious handicaps that make it extremely difficult for pensioners to take the necessary action. They are old – some are too old to fight for their rights. They are scattered and some are abroad.

It has been assumed that a pension surplus is the result of over-funding by the company. But in certain cases there might not have been over-funding, the members might have had to continue with their contributions while the company ceased to contribute, and the surplus might have derived from shrewd investments.

A. Mowlem,
4 Grass Park, N3

Why sentiment is still an important factor

From Mr H.G.K. Price,

Sir, The British Coal Pension Funds advise shareholders in Globe Investment Trust to eschew sentiment ("Discounting a vital issue in the takeover," May 7), but for many this is a part of the total picture. I like Globe because it is old and large and reassuring. It offers solid worth akin to that of a household-name life assurance company, with, however, much lower costs and far superior performance.

It is surely no coincidence that life assurance companies are keen to dismember generalist investment trusts. Presumably they think the small man will divert his savings to their own inflexible endowment policies and over-priced unit trusts.

Well, I shall not. I shall note which insurance companies help to destroy Globe and I shall avoid their products. I have already written to the chairman of Standard Life.

H.G.K. Price,
31 Park Road,
Bakewell, Derbyshire

FINANCIAL TIMES
Monday May 21 1990

First aid for health care in eastern Europe

Doctors need equipment and medicines report **Jennifer Monahan and Robert Corzine**

THE more the scale of the communist disaster in central and eastern Europe comes to light, the more the note of frustration that can be detected among those trying to explain it seems understandable. Doctors are no exception.

A meeting last month arranged in the Polish city of Cracow by the French organisation, Médecins du Monde, discussed "humanitarian medicine and the rights of man." What emerged was the glaring gap between human need and economic and social reality. It was also clear that there are opportunities for western business as well as aid organisations to help redress the balance.

Environmental pollution, as in East Germany (above), has led to severe health problems

The doctors described the depressing situation they face: in states which until recently used statistics to disguise rather than reveal the truth, data systems need a total overhaul. But even though the exact extent of the problem may be unknown, it was clear that health care in eastern Europe is depressingly substandard.

The doctors emphasised that the health of those they treat is poorer than the western average, and below their own idea of what is acceptable. Poor diet, widespread smoking, alcoholism, industrial pollution and overcrowded living conditions all take their toll.

Without exception every doctor at Cracow pleaded for access to western research and knowledge. Hard-currency subscriptions to western journals were particularly prized and some virtually unobtainable outside Warsaw, Bucharest or, indeed, Moscow.

There was a lack of the supplies and equipment taken for granted in the west. Delegates reported that a Romanian surgeon mentioned a shortage of needles for sutures; health care at all levels was hampered by the lack of computers; and modern pharmaceuticals were either in short supply or of inferior quality.

Doctors said the shortage of hard currency was the over-riding obstacle - but they stressed that they were not begging, and wanted joint ventures to produce the materials required.

A study commissioned last year by the Association of British Health-Care Industries (ABHI) confirmed that joint ventures are one way for western companies to enter eastern European markets.

The output of pharmaceutical products also varied widely. Even in East Germany, where 98 per cent of available medicines came from domestic sources, local suppliers were unable to meet periodic peaks in demand. The Soviet and Polish pharmaceuticals industry met only 45 per cent of domestic demand in 1988.

THE doctors at Cracow were anxious that western delegates should grasp what it means to raise standards of care when people have lived for generations in a regime that punished personal responsibility. "It's habits and attitudes that need changing," was the message.

Some of the findings in the ABHI report support the doctors' claims about the widespread lack of accountability. It estimates, for example, that the high level of false diagnoses in Soviet out-patient centres means that as many as 45 per cent of all hospital admissions are unnecessary.

The study also confirms the doctors' view that vulnerable and economically inactive citizens have little or no access to the care provided for the working population. Orphans and the old were mentioned by delegates from several countries as groups poorly treated. On average only 4-6 per cent of state spending is directed at health care, half that of the west.

It is also clear that the system is ill-prepared to tackle the sharp rise in diseases common to heavily-industrialised countries. Of the four countries covered in the study, all but the Soviet Union had made substantial progress in controlling infectious and parasitic diseases. But there has been a sharp rise in heart and circulatory diseases as well as cancer, the death rates from which are often twice those of the west.

MANY of the doctors at Cracow believed that western help has so far been disappointing. A Czech delegate, Dr Martin Bojar, said his compatriots were disillusioned to find that promises made by visitors during the heady days of last November were receiving no adequate follow-up. "We should be part of Europe," he said. "We seek a real partnership."

Multilateral aid is being funneled mostly through the EC and the World Health Organisation. The main task, according to WHO officials, is to concentrate on priority areas in each country to rectify the "massive neglect" of the former communist regimes.

The role of the private sector in the west and within the emerging democracies could prove crucial in improving the state of health care. The Cracow meeting wanted to see private medicine introduced along the west European model.

This would also complement the already well-established trend in many Comecon states towards greater patient contributions through insurance schemes.

Hard currency shortages are likely to remain the biggest barrier to western companies over the next few years. However, the study concluded that opportunities in the east could be "enormous" to companies willing to take a long-term view.

THE LEX COLUMN

The bull market in people

Ever since Malthus, dire predictions about the consequences of human population growth have been proved false. But whether one falls into the optimistic or pessimistic camp, it is clear that the current rate of growth will have enormous economic and industrial consequences. A billion people will be added to the world's population by the end of the decade – the equivalent of another China. By 2025, the population will have increased by 3.17bn, equal to the entire population of the world as recently as 1960. The United Nations is predicting that the total will eventually stabilise at 11bn, but, at present fertility rates, 14bn looks more likely.

The obvious question is what all those people will eat. It is easy to overestimate the effects of the "green revolution". The UN says that more developing countries saw falls in per capita cereal production between 1979-81 and 1986-87 than saw rises. World cereal production per head peaked in 1985; the 1988 figure was lower than in any year since 1977.

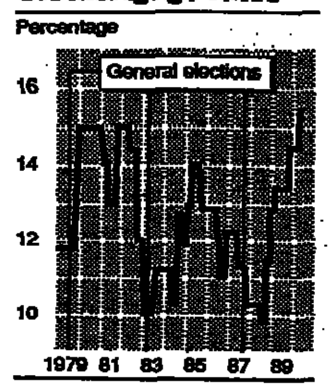
In part, this may be a function of price. Wheat prices rose by under 8 per cent during the 1980s; higher prices might bring further land into production or cause switching from other crops. In theory, there is plenty of surplus land available, although much of it is in sparsely populated tropical areas. Whether the investment to improve that land comes from the west or from changes in the political and economic structure of the developing countries will no doubt be the subject of continued debate.

But from the economic point of view, what is clear is that to bring Third World food production anywhere close to western levels, there will need to be an immense increase in use of fertilisers and pesticides. That may more than compensate agricultural chemicals companies for any environmentally induced fall in demand from the west.

It is also clear that health care expenditure will rise at least in line with population. Developing counties in particular currently spend a far smaller proportion of their GNP on health than on defence. Any attempt to reduce population growth, for example, would increase expenditure on contraception. And if developing countries shift away from sterilisation towards the methods more commonly used in the west, the drugs companies will be obvious beneficiaries.

UK mortgage rates

Percentage



Another industry which looks set to benefit, on the basis of United Nations predictions, is motors. The current total of 400m cars in the world is expected to increase to 700m by 2025. Again environmental considerations are likely to be overridden by the universal human desire for car ownership. Whether the west European and American motor companies build the bulk of those cars; or whether they are made by the Japanese and south-east Asians is another question.

Indeed Western companies will have to be very quick on their feet to exploit the new opportunities. By the year 2025, 57 per cent of the world's population will live in Asia, including 25 per cent or 2.17bn in south Asia. The developed countries' share of world population will be down to 15.8 per cent, less than half its proportion in 1950.

UK markets

The UK equity market cannot afford to overlook economic data, such as this week's UK trade figures, events on Wall Street, or the course of West German monetary policy over the next few months. Nevertheless, the UK financial markets are moving into a period when domestic political pressures are likely to be as important, if not more so, than external influences on the level of share prices.

Against this background, the psephologists could be more useful than traditional economists in deciphering the meaning, for example, of last week's spate of rumours about British entry into the exchange rate mechanism. The timing of entry is just as important a political event as a financial one, and will probably determine whether the current UK Government can win re-election.

The gilt-edged and foreign exchange markets remain far more nervous of a Labour government than a Conservative one. But the chances of either party forming the next government are far more finely balanced than the gap in the opinion polls suggests. Mr Nigel Forman, the Tory MP, noted at a Kleinwort Benson investment seminar last week, that no governing party has ever been so far behind in the mid-term opinion polls and gone on to win the subsequent general election. On the other hand, no opposition party since 1945 has ever achieved the size of swing Labour needs to win an overall majority.

The Conservatives won re-election in 1983 and 1987 when inflation was under 5 per cent and mortgage rates were around 10 per cent. These are the magical figures the Government has to keep in mind as it plots its financial tactics in the run-up to the next election. It is hard to imagine mortgage rates being reduced by a third over the next couple of years, if the Government's fight against inflation is to retain any credibility. But by the same token, a pre-emptive rise in UK interest rates, which would make more economic sense, would be even more surprising. Both are possible, which explains why the UK financial markets could be even more volatile than usual over the next year at least.

ACT

The complaint by Burmah's chairman against the Advance Corporation Tax system revives an old debate between industrialists and the Treasury. The fact that ACT cannot be offset against overseas taxation is, companies argue, a disincentive to direct investment overseas; though that might not be their most profitable line of argument if Labour wins the next election. The taxman might also present the respectable counter-argument that discouraging distribution in favour of retaining earnings for investment is economically beneficial.

In the simple taxation system Mr Lawson seemed to be aiming for, the taxation of profits and dividends ought not to have been linked at all. But never mind the theoretical arguments, the Treasury does not want to lose the £750m or so reform might involve. And making ICI responsible for paying taxes on dividends, rather than chasing the hordes of Aunt Agathas, is a lot more convenient.

Bush welcomes Moscow arms talks as a major step forward

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush has welcomed the Moscow arms talks as a breakthrough which ensures that his summit with President Mikhail Gorbachev in Washington in 10 days' time should be "another solid step forward" in the US/Soviet relationship.

Mr Bush and his advisers have put a positive interpretation on the outcome of the Moscow talks, notably the progress on reducing strategic weapons and the full agreement on a bilateral cut in chemical weapons. This is despite the lack of progress towards a treaty on reducing conventional forces in Europe and the continuing Lithuanian crisis.

The normally cautious Mr Brent Scowcroft, the President's national security adviser, said on Saturday that the Moscow meeting had put relations back on track after the Soviet side had earlier appeared to be pulling back on some arms control issues.

There has nevertheless been no US commitment to bring forward a bilateral trade treaty for signing in Washington. A provisional trade agreement, leading to most favoured nation status for the Soviet Union and a big reduction in US tariffs, has been prepared, but US officials say signing could be delayed, not least because of the opposition of many in the US Congress.

Signing of a treaty will depend on an easing of Moscow's squeeze on Vilnius and the beginning of a dialogue, as well as on the passage of an emigration law by the Soviet parliament.

The Moscow statement by Mr James Baker, the Secretary of State, on Saturday made no mention of the trade treaty. He said that, apart from arms control, the two presidents would in Washington sign a long-term grain sales agreement, a maritime transport deal, various other maritime agreements and an understanding on the exchange of 1,000 undergraduate students between the countries.

While acknowledging that the Lithuanian crisis still places a cloud over the summit, Mr Bush and his advisers do not want it to dominate the discussions and they now feel that the Washington meeting can be presented as a movement forward in the relationship.

Mr Bush said during a visit to Texas on Saturday that the Moscow talks were a major step forward that "should allow us to meet the important goal we set in Malta" (at last December's summit with Mr Gorbachev) of completing a treaty to reduce long-range strategic nuclear weapons.

Mr Scowcroft said that, while there were still a lot of minor things that had to be done over strategic arms, "none of them we would consider right now to be treaty-stoppers."

Hence the "major substantive elements of a START treaty" should be completed by the Washington summit, leaving a detailed treaty to be signed later this year.

He said the Soviet side appeared to be "stonewalling" over conventional arms. While it was never expected that a deal – which involves all Nato and Warsaw Pact countries – would be ready by the Washington summit, the lack of progress raises questions about whether such a treaty will be ready for signing this year.

The US and Britain have been insistent that agreement on cutting conventional forces is a necessary prerequisite for any meeting of the 35-nation Conference on Security and Co-operation in Europe, provisionally scheduled for December in Paris.

Background, Page 2

US banks tighten up on property lending

By Peter Riddell in Washington

US COMMERCIAL banks are restricting loans on property and to some small and medium-sized businesses, but there is no general credit crunch, according to a Federal Reserve survey.

The disclosure of the regular survey coincides with the publication of the minutes of the March 27 meeting of the Fed's policy making Open Market Committee (FOMC). It shows that, while monetary policy was left unchanged, Fed governors and regional bank presidents were divided about the extent of the inflationary threat, as well as about the scale of intervention in foreign exchange markets.

The current monetary policy was apparently confirmed at last Tuesday's meeting of the FOMC, to judge by subsequent comments and the Fed's actions in the money markets.

The Fed's survey of 60 bank loan officers shows that since the end of last year there has been "a considerable" tightening of lending policies on commercial property, excluding construction and land development loans.

Moreover, lending to small and medium-sized businesses has been tightened because of a less favourable economic outlook and a deterioration of banks' loan portfolios. There is a greater tendency to tighten terms on business lending among small, rather than larger, banks.

Total commercial and industrial lending has still grown this year, though at a slower pace in the second half of 1989. The survey indicates reduced demand for borrowing from larger customers, which have also become more reliant on commercial paper. Banks have not changed their lending policies towards such large companies.

The survey suggests that, while there has been some tightening, especially in relation to property, there has not been the widespread credit squeeze about which some banks and businessmen have recently been complaining.

This ties in with the message delivered to leading US bankers 10 days ago by Mr Alan Greenspan, the chairman of the Fed, and other top regulators that, despite the need for caution in some sectors, there should not be a general squeeze on lending to credit-worthy customers.

The FOMC minutes state that, apart from lending for corporate restructuring and some property deals, "it was difficult to find firm indications of greater credit rationing. Some tightening of credit standards probably was a desirable development in terms of correcting for past excesses and adjusting to a more moderate pace of business activity."

At the March 27 meeting, two Fed governors, Mr Wayne Angell and Mr John Laware, and Mr Lee Hoskins, president of the Cleveland Federal Reserve Bank, voted against an increase from $21bn to $25bn in the upper limit on the Fed's holdings of foreign currencies.

Mr Angell and Mr Hoskins felt that intervention in foreign exchange markets in recent years had "undermined the credibility of the Fed's monetary policy by contributing to uncertainty concerning its priority towards achieving price stability."

The three also opposed a proposed increase from $10bn to $15bn in the amount of foreign currency which the Fed can "warehouse" for the US Treasury – an arrangement under which the Treasury sells foreign currency to the Fed in exchange for dollars and simultaneously agrees to repurchase it at the same exchange rate some time in the future.

They were worried about the policy implications of such activities which "were inappropriate in the absence of a definitive indication of Congressional intent in this area." The warehousing, they said, could be viewed as avoiding the Congressional appropriations process for approving spending.

At the March meeting the members of the committee voted nine to two for an unchanged policy. Mr Hoskins and Mr Robert Boykin of Dallas dissented because of their concern over inflationary pressures.

UK claims EC support on S Africa

Continued from Page 1

Minister, on Saturday. He hasso far visited Belgium, Britain, France, Greece and Portugal. In Bonn he will meet Chancellor Helmut Kohl, Mr Hans-Dietrich Genscher, the Foreign Minister, and President Richard von Weiz säcker, before travelling on to Berne, Madrid and Rome.

Mr de Klerk secured a firm commitment from the Portuguese Government last week that Lisbon would support an immediate lifting of sanctions.

In Bonn yesterday, a Foreign Ministry spokesman said that the West German Government supported Mr de Klerk and viewed what he was doing as promising, but that it was too early to talk about ending sanctions.

There were signs yesterday of continued differences between the British and the Irish, who currently hold the EC presidency and are strongly opposed to lifting sanctions.

Mr Gerry Collins, the Irish Foreign Minister, described as "very helpful" a letter sent by a number of Commonwealth foreign ministers to the EC calling for a continuation of sanctions. But Mr Hurd said the letter was "somewhat unreal," adding that "it gave a one-sided account of what was happening in South Africa."

At a press conference in London at the weekend, Mr de Klerk was at pains to stress that the process of reform under way in South Africa was "irreversible."

"My message is that the dynamics inside South Africa necessitate a re-evaluation of the policies in Europe and the European Community," he said.

However, anti-apartheid groups, including the African National Congress (ANC), dispute the claim that reforms introduced by Mr de Klerk amount to "profound and irreversible changes."

Mr Nelson Mandela, deputy president of the ANC, whose release in February after 27 years in prison signalled the start of Mr de Klerk's reform drive, said in Algiers over the weekend: "Apartheid is still in place. Nothing has happened in regard to its dismantling."

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	25	77	Dallas †	C	25	77	Madeira	F	19	66	Prague	F	17	63
Algiers	F	24	75	Dublin	C	14	57	Madrid	S	23	73	Reykjavik	C	8	46
Amsterdam	S	20	68	Dubrovnik	S	24	75	Majorca	S	24	75	Rhodes	S	25	77
Athens	F	27	81	Edinburgh	C	12	54	Malaga	S	28	82	Rio d'Janeiro		–	–
Bahrain	S	33	91	Faro	F	23	73	Malta	T	21	71	Rome	S	25	77
Barcelona	F	24	75	Florence	C	27	81	Manchester	C	13	55	Salzburg	F	19	66
Belfast	F	15	59	Frankfurt	S	22	72	Melbourne	C	13	55	S'Francisco †	R	13	55
Belgrade	S	19	66	Geneva	F	18	64	Mexico City		–	–	Santiago		–	–
Berlin	S	17	63	Gibraltar	S	23	73	Miami †	S	27	81	Seoul	S	19	66
Biarritz	C	19	66	Glasgow	C	14	57	Milan	C	18	64	Singapore	F	32	90
Birmingham	C	14	57	Guernsey	R	11	52	Montreal †	C	7	45	Stockholm	F	14	57
Blackpool	C	12	54	Helsinki	F	12	54	Moscow	C	9	48	Strasbourg	S	23	73
Bombay	F	33	91	Hong Kong	S	29	84	Munich	S	18	64	Sydney	C	15	59
Bordeaux	F	19	66	Innsbruck	F	19	66	Nairobi	F	24	75	Tangier	F	21	70
Boulogne		–	–	Inverness	C	15	59	Naples	F	27	81	Tel Aviv	S	25	77
Bristol	S	15	59	Isle of Man	S	12	54	Nassau		–	–	Tenerife	S	19	66
Brussels	S	22	72	Istanbul	F	15	59	Newcastle	C	9	48	Tokyo	F	23	73
Buenos Aires		–	–	Jersey	R	12	54	New Delhi	S	36	97	Toronto †	R	8	46
Budapest	S	18	64	Johannesburg	F	17	63	New York †	C	13	55	Tunis	F	30	86
Cairo	S	30	86	Las Palmas	F	23	73	Nice	F	22	72	Valencia	S	25	77
Cape Town	C	12	54	Leeds	C	12	54	Nicosia	S	26	79	Venice	S	22	72
Cardiff	F	15	59	Lisbon	C	20	68	Oporto	F	18	64	Vienna	F	16	61
Chicago †	C	12	54	Locarno	C	18	64	Oslo	F	15	59	Warsaw	C	11	52
Cologne	S	22	72	London	C	14	57	Paris	S	22	72	Washington †	C	21	70
Copenhagen	F	15	59	Los Angeles †	C	13	55	Peking		–	–	Wellington	R	9	48
Corfu	F	25	77	Luxembourg	S	22	72	Perth		–	–	Zurich	S	21	70

C – Cloudy. Dr – Drizzle. F – Fair. Fg – Fog. H – Hail. R – Rain. S – Sunny. Sl – Sleet. Sn – Snow. T – Thunder.
† Noon GMT temperatures

EC row over decision on siting of bank

Continued from Page 1

be located in Amsterdam.

After the vote, the Dutch threatened to withdraw their support for the EBRD. However, they cannot block the establishment of the bank by refusing to sign the statutes in Paris at the end of this month. The EBRD will come to life once the parliaments of two-thirds of the member governments have ratified the agreement.

The UK parliament should ratify the statutes before the end of this year, and the Treasury hopes that the bank will be up and running by the Spring of 1991. The EBRD, with capital of almost £7.5bn, ($11.7bn) will lend money at market rates to those countries in central and eastern Europe that are committed to applying the principles of multi-party democracy, pluralism and market economics.

The vote to site the EBRD in London was hailed by the UK Government yesterday as a vote of confidence in the City of Londonas a leading financial centre. The Treasury said it was "absolutely delighted" by the decision, which is regarded as a significant coup for Mr John Major, the UK Chancellor, who played a key role in lobbying support for the capital.

The decision now has to be taken on where in London to locate the EBRD. The Treasury has been inundated with offers from property developers, and there is considerable speculation that the bank will be based in the Docklands.

The EBRD will initially employ a staff of about 600, drawn from throughout the UK and Europe. The bank will be the first important international organisation to be based in London.

It is believed that the president-designate, Mr Attali, will act mostly as a figurehead for the EBRD, leaving the day-to-day management of the bank to the vice-presidents and the board of directors.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday May 21 1990

INSIDE

Enimont set to name $1bn bid target

The Italian chemicals concern Enimont is expected today to disclose the name of its $1bn acquisition target amid a welter of speculation after the company revealed its spending plans last week. Among names mentioned are Polysar, a subsidiary of Canada's Nova Corporation, as well as ICI's polypropelene operations and even the Ausimont fluorides subsidiary of Enimont's own joint parent, Montedison. Page 20

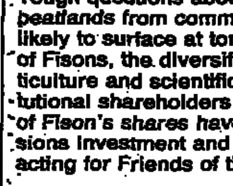
First round win to CGE

Compagnie Generale d'Electricité headed by Pierre Suard (left), has won an initial skirmish *in its attempt to gain* control of the leading French nuclear plant builder, Framatome. The Paris Commercial Court *has thrown out a request* by Framatome for the sequestration of all or part of CGE's recently-acquired majority stake in the plant builder. However, the court told Framatome that it had a legally valid case. Page 20

Fisons draws green lobby

Tough questions about the threat to lowland *peatlands from commercial peat extraction* are likely to surface at tomorrow's annual meeting of Fisons, the diversified pharmaceuticals, horticulture and scientific equipment group. Institutional shareholders speaking for 42 per cent *of Fison's shares have been contacted by* Pensions Investment and Research Consultants acting for Friends of the Earth. Page 21

What's in a nationality?



How can a company's nationality be defined? By its ownership? By where its top management reside? By where it makes its goods? Or by where it sells them? In the Business Column Charles Leadbeater suggests that religious, political or social attachments, such as judaism, catholicism or environmentalism which span national borders, might be a better way of categorising companies than outmoded notions of nationality. Back Page

Market Statistics

Companies in this section

The price of ignoring clues to the future

Terry Byland and **Richard Waters** explain the importance of LIFFE in signalling last week's bull market

It was a dramatic change of heart. *After the uncertainty* of recent months, UK share prices leapt forward last week, sparked into action by a belief that the UK would soon be a full member *of the European Monetary System.*

For the stock market, however, such leaps of faith are not unalloyed good news. The sharp *movements* of last week, *following* a period of low activity, tested the market's mechanisms to the full.

They also caught marketmakers and institutional investors acutely short of stock – a costly experience for the former and a warning to the latter of the dangers of shying away from equities.

The events of the past week have emphasised the role now played by the futures market in directing, as distinct from merely shadowing, developments in the underlying stockmarket. On each of the last three sessions of the week, share prices opened quietly, with only minor gains; it was the flying start in the FT-SE *futures contract* when the London International Financial Futures Market commenced business at 8.35am which lit the blue touchpaper.

On the *stockmarket proper*, marketmakers can begin to input their price quotations to the SEAQ electronic network from *8.00am, and business* can then be transacted, although the FT-SE is not calculated for another half hour. And that was one source of the bitter, sometimes near-physi*cal, clashes* between traders *last* week.

Marketmakers, horrified at 8.30am to see the premium on the FT-SE future rocket to, for exam*ple, 60 points on Friday morning,* rushed to change their quotations for the Footsie 100 stocks before rivals or brokers could "take them out."

Even minor and justifiable delays in answering the banks of flickering telephones, especially if accompanied by a change in the price on the trading screen, enraged the near frantic callers and would-be customers.

Some dealers would claim that the delays were not always minor and not always justifiable, but there have been no official complaints to the International Stock Exchange.

Turnover in the futures market has increased over the past fortnight and this may have a more *significant message* for equities than mere verbal fisticuffs.

Demand for the Footsie future has come from two separate and sometimes conflicting quarters – *the marketmakers and the* investment institutions.

Marketmakers use the futures market extensively for balancing trading books in the underlying *Footsie stocks, which are the top* 100 equities traded in London; it is cheaper and quicker to move positions in the futures than in the stockmarket.

The institutions use the futures market as a technical aid, but also, and increasingly, as a first step to a definite change of stance in equities. "The funds *often buy the Footsie future* before they have decided which specific stocks they want to take," said a dealer at Panmure Gordon.

In buying the futures contract, the institutions protect themselves against the surge in the share prices that will greet *their appearance in the equity* market.

From this viewpoint, the futures market may have been sending out important signals. *The Footsie contract was trading* at a significant 40 point premium for nearly two weeks before the equity market took off. In that very important sense, the futures *may indeed have been leading* the equity market.

All this indicates that the futures market has become increasingly sophisticated and a more important influence on equities than it was at the time of the Big Crash, for example.

When the dust of last week's conflict dies down, London equity firms will be showing a new and deeper respect for their counterparts in the multi-coloured LIFFE jackets.

Marketmakers, meanwhile, were badly caught out in last week's rush. Few were carrying any stock (in the jargon, most held bear positions). It was like sale-time at Harrods, but without anything laid out for the custom*ers to buy.*

In such circumstances marketmakers, who are obliged to sell shares at the prices they quote on SEAQ, inevitably take a loss *as they scramble to buy in stock* at a higher price to cover their positions. According to Kleinwort Benson: "If institutions are buy*ing it, and other marketmakers* are buying it, and you want it, where can you get it? You're going to get hurt."

Estimates of how much was *lost on Thursday, the day prices* surged, vary wildly.

A suggestion of £20m ($33.8m) was said by most marketmakers to be wildly exaggerated. One of *the leading marketmakers, for* instance, while admitting to having been caught out, said that it had lost "substantially less than £1m."

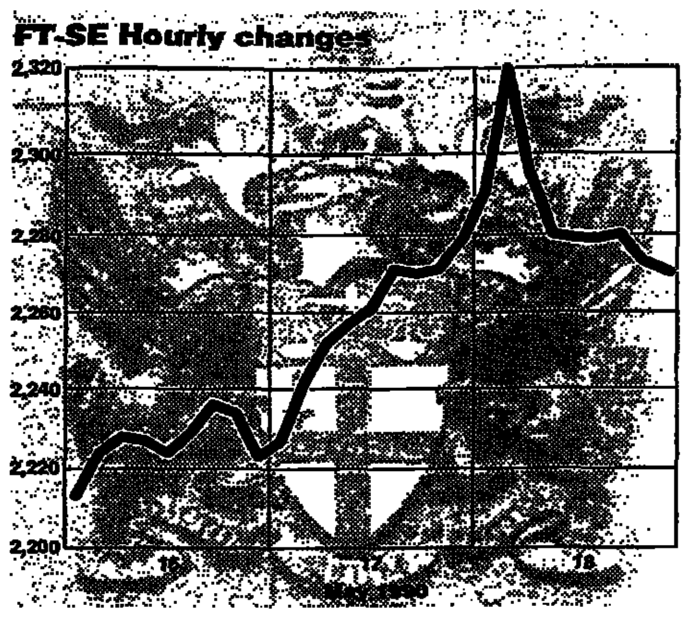
Most declined to speculate, although one said £5m to £10m was a more likely range.

Losses like these make marketmaking, already suffering from tight margins because of the high level of competition in the market, a painful business to be in. But the bad days have to be set against the good.

As Mr Tony Abrahams, head of marketmaking at Smith New Court, one of the most successful firms, said: "It was quite painful – I wouldn't want to sound too relaxed about it.

But in each month we get it right some days and wrong others." The sharp movements were undiluted good news for brokers, though. The level of share dealing *surged*, bringing with it an increase in brokers' commission income.

FT-SE Hourly changes



The US business cycle rediscovered

By Anthony Harris

It would be quite literally intolerable to try to eliminate all this [the expected over*shoot of up to $124bn in the 1991* US fiscal deficit] in just one Budget."

These words, used in Congressional evidence by one of Mr *Richard Darman's officials* last week do not simply mean that the deficit is out of control. There is nothing new about that.

They mean that after a long exile, the ghost of John Maynard Keynes has been allowed re-entry as a member of the Washington policy establishment, which is new.

On the face of it, this is a welcome return to reasonably sophisticated thinking. (The timing is interesting too, to put it mildly, but we will come to that later.)

The pure cash targets for the deficit contained in the Gramm-Rudman-Hollings Act (GRH) always did seem simple-minded. The fallacy is that the most powerful influence on the actual state of the US deficit is not Budget policy, but the state of the economy.

A boom cuts the deficit, a slow-down enlarges it. Result: targeting the deficit without regard to the state of the economy is asking for trouble, in two *forms. First it* encourages Presidents to "meet" the GRH targets by optimistic economic forecasting. (President Bush's so-called flexible freeze strategy simply *extended this Micawberish* approach to the medium term.)

As long as the economy is in the up half of a business cycle, this non-policy looks like masterly economic management. However, once the economy slows down again – as economies generally do – the policy that looked masterly is seen as "literally intolerable."

In a slowdown, nobody even pretends that the deficit can be managed. (Actual recession does not count, because Congress recognised from the start that *no-one would try to cut the defi*cit in a recession, and provided a temporary escape clause.)

They turn instead to moving the GRH targets through what is euphemistically known as a "fix" – perhaps rightly, since it is a way of sustaining a halluciniation.

This means amending the law; and as long as Capitol Hill is controlled by the opposition, the law can only be changed through bipartisan agreement.

*The net result of cash target*ing, then, is, in a fat year, to prevent Republican presidents from behaving like fiscal conservatives, while, in lean ones, they *cease to behave like Republicans* at all. Hence Mr Bush's willingness to talk about higher taxes, provoking incoherent rage from his own right wing, and sardonic jokes from everyone else.

My own favourite is the feeblest: "What I said was 'No new taxis'".

This nonsense could all be avoided if targets were set in cyclically-adjusted terms – an essentially Keynesian practice introduced nearly 30 years ago by President Kennedy, acting on the advice of the late Arthur Okun. It *was thrown out in* the general Reaganite contempt for "funny money," and even now its re-entry is only implicit.

All the same, it is more sensible to admit to trouble with the economy than to try to wish it away. In that respect, the change is welcome; but in another, it is potentially sinister.

The trouble is that the Darman analysis is insular, and ill-timed, *too. The slowdown, which has* provoked such alarm, is essentially a credit deflation, reflecting new caution on the part of both borrowers and lenders.

It will hit purely domestic activity – construction, which now expects to shed some 200,000 workers in housebuilding alone, related durables and home car sales.

Mr Darman clearly believes that the impact could be much sharper than consensus forecasts yet suggest, and I would agree with him. But in a world context, that could be a very welcome change.

The sudden liberation of eastern Europe will require a flow of resources from the west (mainly *from* West Germany) which my friend Brian Reading of International Advisory Associates estimates at 6 per cent of German GDP.

That is more than enough to wipe out the German trade surplus, and the Japanese surplus is also expected to fall away as domestic spedning on the infrastructure grows.

This means that something has to give if world interest rates and world inflation are not to go on *rising; so it is positively helpful if* US domestic demand is offering to fall of its own accord.

In this international setting an attempt to enforce the GRH targets might not be even figuratively intolerable.

It might, on the contrary, be welcome in the same way as the British fiscal tightening of 1981 (which was widely denounced at the time by economists of a Keynesian persuasion who suffered from tunnel vision).

It enabled the Bank to let interest rates fall, and gave Mrs *Thatcher devaluation* without inflation. This started the revival of profits, net exports and investment which became known as the Thatcher miracle.

Something of the same kind is happening in the US in spite of the current impasse on fiscal policy (or more probably because of the impasse).

It is true that consumer demand, housing and other vote-rich domestic sectors look weak. But other numbers are consistently better than expected, notably net exports – the EC is already running a bilateral deficit with the US – and investment intentions.

Meanwhile, the Fed is dropping heavy hints that interest rates might be allowed to fall; and the *dollar would no doubt be allowed* to fall too.

A lower dollar would offer a quick fix for profits, which are at the moment squeezed enough to *constitute a threat to the* intended investment programme. Even a citizen of Mrs Thatcher's Britain may be allowed to draw the conclusion that it was just the time for a naturally cautious and passive President to stay cautious, if not passive, and use the bipartisan opening to get the deficit reduction programme back on track.

Economics Notebook

France warns of fragile profits

THERE is a curious irony to hearing a socialist Government warning that corporate profitability is ominously fragile. In France, where company profits are still rising visibly, the irony is particularly marked.

Nevertheless, senior economists in the Government of Mr Michel Rocard say this is a main point of concern for the next two or three years: that the continued strength of productive investment, and the ability of French companies to finance this investment largely out of their own cashflow, are the most important indicators of the country's ability to resist future economic shocks.

Preliminary national *accounts for 1989, published* last week by Insee, the state statistical institute, confirm that there was some decline last year in corporate self-financing ratios, to 82.8 per cent, compared with 87.7 per cent in 1988, 87.8 per cent in 1987 and 92.5 per cent in 1986 – when French productive investment had just started to pick up.

The decline is most marked for the private sector – 81.7 per cent against 87.2 per cent in 1988 – whereas state-owned companies achieved 89.4 per cent, only slightly lower than 1988's 90.5 per cent.

Business opinion surveys also show the probability of a slowdown in earnings growth this year. A Credit National study of 60 of France's largest industrial and service companies shows cashflow flattening off sharply this year – up 1.5 per cent compared to 15 per cent in 1989 – while investment continues to grow by *around 15 per cent.*

On this analysis, the Government has based its decision to continue the reduction of corporate tax rates, at least on undistributed earnings. The Conseil National du Patronat Français (CNPF), the French employers' federation, is clearly not going to contest the result, and has warned that corporate debt levels are increasing ominously quickly.

Although the CNPF wishes the Government would cut corporate taxes across the board, experience has shown that the retention of a higher rate for distributed earnings has in fact not prevented French companies from boosting their dividends by 14 per cent last year.

But senior CNPF members privately admit that they think the Government is exaggerat*ing the fragility of corporate* finances.

The statistics are to be treated with caution, for they can suffer substantial revisions *up to four* years *after their first* publication. Even at a self-financing ratio of 82.8 per cent, French companies are still faring 15 to 20 percentage points *better than during* the 1970s.

All the same, Insee economists stand by their analysis. They point to the surge in lease financing last year, which may have masked a substantial deterioration in company balance sheets.

* * *

ANOTHER of the French Government's excuses for not relaxing its policy of economic rigour is also under strain: the visible trade deficit has started to improve markedly, dwindling to an average of FFr700m (£74.5m) ($126m) a month in the first quarter of the year, compared with an average of FFr3.7bn a month in 1989.

The rest of the year is almost certain to show some deterioration, but April's foreign trade statistics, due tomorrow morning, should give some indica*tion of whether the first three* months were a pure fluke, or at least partly the result of a genuine improvement in French trading performance. The results were also heavily affected by lower oil prices and by the appreciation in the value of the franc.

Some of the causes of the first quarter's good results were short-lived, as Insee points out: a fall in non-ferrous metal prices, unusually high grain exports and the strike at British Aerospace, which produced a drop in imports of parts for the Airbus assembly plant at Toulouse.

The Airbus effect will now *produce a backlash: exports of* finished aircraft have barely resumed, but imports of wings from British Aerospace have started again, now the strike has ended.

Estimates for Tuesday's figures vary widely. Mr Robin Hubbard of Paribas Capital Markets, for example, is forecasting a deficit of FFr2.5bn, while Mr Bernard Godement of Nomura expects FFr4bn – although he is more optimistic for the year as a whole.

Long term, government economists expect the foreign trade figures this year to return to a trend deficit of FFr3bn to FFr3.5bn a month.

In any case, there has been a distinct shift in opinion on the importance of the trade deficit. The Organisation for Economic Co-operation and Development (OECD), in its annual assessment of the French economy published last month, decided that France's overall external position was, after all, not bad, and that a more balanced assessment, with less emphasis on the visible trade deficit, was warranted.

Those used to UK figures scarcely find France's modest current account deficit alarming at 0.4 per cent of GDP. But what if the trade deficit were *no longer there to justify a pol*icy of economic rigour?

George Graham

THIS WEEK

THE UK TRADE figures on *Wednesday are keenly awaited* in a quiet week for economic indicators. Sterling performed strongly last week, on the back of speculation about imminent *entry to the exchange rate* mechanism of the European Monetary System, but poorly received trade figures might bring the currency under renewed pressure.

Analysts expect the April figure to register a substantial improvement over last month's £2.2bn deficit, which was greeted with horror on international markets. Nobody expects it to be as bad this time. The consensus forecast, according to a survey by MMS International, the financial markets research group, is for a current account deficit of £1.5bn.

Two other indicators will provide clues to the UK's underlying rate of inflation. *Today's provisional M0 figures* for April should indicate the buoyancy of consumer demand, with an increase of 1.5 per cent, against 0.2 per cent in *March, expected. The broader* figure for M4 including bank lending, which hit the disquietingly high level of £9.2bn in March, is expected to reach a more level-headed £6.5bn.

Also, unit labour costs for March are announced. Following recent high pay settlements, and warnings on pay *made by Mr John Major, the* Chancellor, to the CBI last week, the labour market is the focus of much attention. If there is more inflationary pressure to come, many *analysts* treat unit labour costs as the best indicator for it. A year-on-year increase of 7.3 per cent, compared with a 6.8 per cent rise in February, is expected.

In the US, the economy appears to be easing smoothly. Thursday's money supply aggregates are all projected to show a tightening, while personal consumption growth for April is expected to maintain the March level of 0.4 per cent, and a *drop in personal* income growth is expected.

These figures could please the market, which is still worried about inflation, although there are some worries about sluggish growth and undesirably high inflation.

Japan, enjoying a rally on the financial markets recently, should announce reduced consumer price inflation on Friday, as the April 1989 sales tax increase fades from the picture. March may have seen the peak, although concern over the tight *labour market*, low productivity growth and demand pressure will persist.

The pace of the week may be slackened by Thursday's *Ascension Day holiday, when* most continental markets will be closed. Other significant events (with MMS consensus forecasts in brackets where relevant) include:

Today: UK, provisional April M4 figures (+1 per cent), London and Scottish banks' monthly statement.

Tomorrow: France, trade balance for April (-FFr3bn). Germany Money supply M3 figures for April (4.8 per cent).

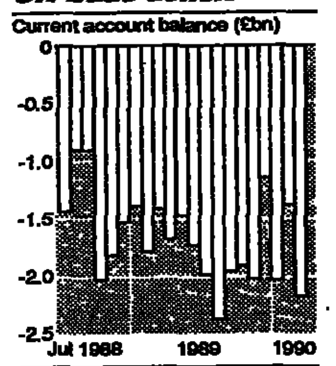
Wednesday: US, durable goods orders for April (-2 per cent), Alan Greenspan, chairman of the Federal Reserve, testifies to Senate banking committee on thrift bail-outs.

Thursday: UK, industrial production for March (+0.7 per cent). US, real GNP for first quarter, and figures on M1, M2 and M3. Japan, industrial production figures.

Friday: UK, April Building Society commitments.

UK trade deficit

Current account balance (£bn)



INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Fed ends interest rate speculation

THE MESSAGE from the Federal Reserve could not have been clearer: forget any immediate cut in US short-term interest rates. The message was delivered repeatedly last week after a flurry of wishful bond market speculation, to the effect that rates were finally on their way down again, accompanied a meeting of the Fed's open market committee, its policymaking arm.

President George Bush joined the ranks of the hopeful when he told a news conference he would like to see interest rates falling. But on both Thursday and Friday the Fed made clear it was business as usual.

It entered the market to drain reserves when the Federal funds rate, which charts the basic cost of credit, slipped below its 8.25 per cent target. This depressed the price of bonds, which ended slightly down on the week, despite a run of reasonably encouraging economic statistics.

That suggests that bond prices may be set for a period of trading on a fairly narrow plateau over the next week or so, barring any horrendous shocks, following their steep rally in the first half of May.

That rally was the product of a sudden change in market perceptions: economic data for the first three months of the year, suggesting that inflation was spiralling out of control, gave way to some very downbeat April figures. Inflation, that scourge of fixed income markets, suddenly seemed to be a phantom which had been conjured up by some temporary statistical oddities and could be made to disappear just as quickly.

Still, the contradictory signals from the statistics mean the outlook for the economy is still unclear, and the market is focusing for a new sense of direction on the May employment report, released on June 1.

Mr Edward Boehne, president of the Philadelphia Federal Reserve, said last week that the "risk to the economy is fairly even between a further slowdown and inflation," and added that the Fed had not changed its monetary policy since before Christmas.

The Wall Street consensus seems to be that, over much of 1990, inflation is likely to remain in a manageable 4.5 per cent to 5 per cent range and that, while the economy is growing slowly, it is not about to tip into recession, forcing the kind of interest rate cuts which would have the bond market soaring.

Nevertheless, there have been some worrying signs of economic downturn over the past week. Housing starts are in their worst slump since 1982, while consumer spending on goods is very soft, with only the consumer services sector retaining any bouyancy.

And even if Wall Street does not think the economy is particularly fragile, the White House does – or has good political reasons for professing that it does.

President Bush began a delicate dance last week with Congress members on ways of reducing the budget deficit, and be emphasised the dangers of excessive measures which would risk slowing the economy further.

The size of the potential budget deficit has grown greatly over the past few months. In January the White House, working on some remarkably optimistic economic scenarios, forecast that a mere $36bn of cuts or revenue increases would be needed to meet the $64bn deficit target set for 1991 by the Gramm-Rudman deficit reduction law.

But it is now signalling that the deficit is likely to be in the $128bn to $140bn range – before taking into account another $50bn of working capital for the Resolution Trust, which is clearing up the mess of the savings and loans industry.

However, both the White House and Congress are prepared to remove this from the Gramm-Rudman calculations.

Despite the tortuous verbal sparring between the White House and Congress – designed to deflect blame for tax increases and budget cuts to the other party – the bond market has taken heart from the negotiations, since at least the two sides seem to be talking seriously.

Failure to agree would hardly be good news for bonds, as Mr Bush himself acknowledged last week when he said he did not want to "frighten the markets" with the nature of the problem. For an uncut deficit would mean increased government paper, depressing prices.

That said, some analysts argue that the potential impact of both the savings and loans bail-out and a more general budget shortfall can be greatly exaggerated. The S&L rescue, runs this argument, is not adding to pressure on interest rates because the Government is merely acting as a financial intermediary and is not pumping extra demand into the system. As for the broader deficit, it is caused as much as anything by a shortfall in Government revenues, produced by the economic downturn, and this does not put nearly the same pressure on rates as the deficits of past years, caused by government stimuli to the system.

Be that as it may, the bond market was ruffled last week by the news that this week's two new offerings from the Treasury are to be substantially bigger than expected: a two-year note issue has gone up from $10.5bn last month to $10.8bn, with a five-year note issue rising by $500m to $8.5bn, presumably because of the needs of the Resolution Trust.

And a close watch will be kept this afternoon on figures for April's federal budget, to see whether receipts are lagging badly.

Analysts are forecasting a surplus of around $38bn-$39bn, against $40.9bn last year. But March's figures were far worse than expectations, with a deficit of $53.3bn.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds	8.19	8.31	8.19	9.92	8.00
Three-month Treasury bills	7.99	7.86	7.94	9.11	7.20
Six-month Treasury bills	8.14	8.05	8.22	9.37	7.18
Three-month prime CDs	8.36	8.32	8.50	10.35	8.18
30-day Commercial Paper	8.18	8.13	8.25	9.95	8.05
90-day Commercial Paper	8.15	8.10	8.22	10.05	8.15

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98½	-¼	8.77	8.68	8.57
20-year Treasury	104⅜	-¼	8.79	8.73	8.63
30-year Treasury	100⅛	–	8.69	8.66	8.47

Money supply: In the week ended May 7, M1 fell by $0.2bn to $805.5bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 17/5/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	145.20	7.03	143.72	143.80	147.79
Government Bonds	143.16	6.84	141.51	142.36	147.80
Municipal Bonds	147.35	7.07	145.52	145.69	149.05
Govt.-guaranteed Bonds	149.31	7.17	147.71	147.54	150.27
Bank Debentures	142.39	7.16	141.16	139.92	141.96
Corporate Bonds	147.16	7.41	146.20	146.54	150.80
Yen-denom. Foreign Bonds	152.85	7.63	152.65	152.01	156.64
Government 10-year†	6.41	–	6.63	6.09	5.40

† Estimated par yield

Source: Nomura Research Institute

Bund carries high coupon

By Deborah Hargreaves

A 10-YEAR West German federal bond last week was the Government's biggest and carries the highest coupon since 1982. The issue totalled DM6bn, an increase from the traditional DM4bn of bonds which are regularly offered as part of Bonn's funding requirements.

The bond is being seen as a test case for the West German Government's efforts to finance unification through the capital markets. It carries a coupon paying 8¾ per cent, which is a reflection of the rise in German bond yields.

The German fixed income market has been depressed by the prospect of increasing bond issues. to help rebuild the East German economy.

UK GILTS

Market left stronger but nervous

THERE IS a difference between explaining and justifying, though it is one that is often hard to make in financial markets. Most analysts had difficulty doing either in the super-heated steam of last Thursday's gilts rally, which left the market much stronger, if nervous about the future.

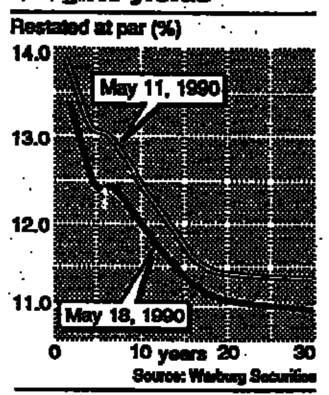
The benchmark 11¾ per cent Treasury 2003-07 closed the week at 100⅜ to yield 11.66 per cent, priced more than two points above its close a week ago, although down from its trading peaks. The market has a long way to go to replace the losses of the first quarter, and the confidence required to sustain the rally has yet to be underpinned by adequate information about funding policy, the economy and the Government's path into the exchange rate mechanism of the European Monetary System.

It was EMS enthusiasm which gave the market the explanation for its bounce last week, fuelled by the strength of the pound, which gained 0.7 percentage points on its trade weighted index in one day. The expectation of lower interest rates and the stronger pound gave the market the energy it has lacked for most of this year, though the rally was also fed by a shortage of stock and an explosion of trading in derivative products.

The Treasury underlined that the prospects for ERM entry were unchanged. No decision has been made on the timing of entry or on the size of bands. A fall in inflation remains the only important condition to be met. This should manifest itself two months after the peak of the annual increase in the retail prices index, expected in August. Several inflation measures will probably serve as a guide.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

The indicators of economic activity and their impact on inflation continued to give cause for concern last week, though the market shows little interest. There was a further rise last week in the producer price index. The Bank of England signalled its interest in this measure in its May quarterly bulletin, putting it side by side with "retailed inflation," the measure of prices of goods in the shops.

Retail sales continue to show surprising strength as do the results of many of the sector's leading companies. Profit margins, as the Bank warns, may be a crucial weak link in the process of slowing inflation.

Yet average earnings in manufacturing continued to rise and unit wage costs released this Thursday are likely to show a continuing deterioration in industry's competitiveness.

The reason for the Bank's concern is last year's decline in sterling, which inoculated much of the corporate sector against the implications of rising wage rates and the deflationary impact of monetary policy. So it was not surprising that the Bank was pleased if highly bemused by sterling's sharp rise last week. The Bank dispensed succour and stock on Thursday night to those market makers who had been caught short. At the same time it confirmed that base rates were to stay at 15 per cent.

Just two months ago the money market had to be prodded in the opposite direction when the Bank declined all offers for 91-day Treasury bills because some bids indicated pressure for a base rate rise. The 11¾ per cent Treasury 2003-07 was then at 97⅜, barely a point above the year's low, yielding 12.09 per cent. The sterling index then stood at 86.1. In eight weeks that have seen RPI inflation hit 9.4 per cent, a current account deficit of £2.2bn and precious little evidence of economic slowing, there has been a recovery of confidence little short of miraculous while a strengthening in sterling has further underpinned the restrictive impact of monetary policy.

This confidence trick can be explained by the hoped-for effects of ERM entry, but hardly justified, given that this is still some distance away. Or it can be explained by the belief that all the bad news is in the market.

The next big test for the markets will be this week's trade figures for April. Whether or not these provide a shock on the scale of the March figures, the foreign exchange market will experience hiccups on its way to the ERM of the European Monetary System.

The gilts market is likely to remain a nervous place until this dilemma is resolved, analysts said last week. The unexpectedly high figures for local authority borrowing were happily ignored, despite the sudden return to a high monthly Public Sector Borrowing Requirement.

The Bank is keeping its own counsel on funding policy and there was marked hush in trading rooms at 3.30pm on Friday when many considered that the Bank might seize the opportunity to issue stock. This hesitancy is likely to be a persistent feature.

Andrew Marshall

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8⅞ 93	150	98¼	+¼	9.64
ABN 9¼ 94	200	98½	+¼	9.55
AETNA LIFE & CAS 7⅛ 16	200	95¼	0	8.19
AHFC O/S FIN 11⅛ 94	100	100¼	0	11.45
ALBERTA PROVINCE 7⅜ 91	750	97¼	0	9.20
ALBERTA PROVINCE 9⅛ 95	600	99⅞	0	9.38
[illegible]				

	Issued	Bid price	Chg on week	Yield
QUEENSLAND GOVT 10¼ 95	100	101⅞	–⅛	9.75
RALSTON PURINA 11⅛ 95	150	104⅛	+¼	10.56
REYNOLDS (RJ) 10¼ 93	100	88½	+¼	14.97
ROCKWELL INT 9⅞ 90	200	99⅞	0	10.13
SAINSBURY 9¼ 96	150	97	+⅛	9.76
SARA LEE 9¼ 93	150	98⅞	+¼	9.85
SAS 10¼ 95	150	100½	+¼	9.97
SASKATCHEWAN 8½ 91	150	99⅞	0	9.61
[illegible]				

	Issued	Bid price	Chg on week	Yield
TOYO TST & BANKING 1¼ 02	100	70⅞	+¼	1.79
UTD BISCUITS 5¼ 03 PREF £	110	108	+3¼	–1.59

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6¼ 93	20.08N	96¾	+¼	8.08
AUSTRIA 4⅜ 94	30.08N	92¾	+¼	7.01
[illegible]				

PRUDENTIAL FUNDING 7⅛ 91	150	98¼	+⅛	9.34
PRUDENTIAL RLTY SECS 0 99	365	45	+⅛	9.66
QANTAS AIRWAYS 8⅞ 96	97	95	–⅛	9.78
QUEBEC HYDRO 9⅛ 98	150	99⅞	+⅛	9.75
QUEBEC PROV 9 98	200	96¼	+⅛	9.69
QUEBEC PROV 13 90	150	101¼	0	9.49

MITSUBISHI BK 1¼ 02	300	88¼	+3⅛	–2.18
OGDEN 6 02	85	83½	+¼	39.59
PIONEER CONCRETE 9½ 98 A$	175	69	–¼	14.46
SAITAMA BANK 1¼ 02	100	88½	+3½	6.04
TEXAS INSTRUMENTS 2¾ 02	300	76½	+1½	54.60
THORN EMI 5¾ 04 £	103	101⅛	+2¾	6.34

WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON 9 92	24/09/92	5	0	8.71
CREDIT FONCIER 10¼ 98	07/03/93	190	+38½	9.75
GMAC 8¾ 95 B	11/02/91	2	0	8.68
HEINZ 7½ 96	01/10/90	1	0	7.47
MCDONALDS B 10 93	01/01/93	10	0	9.51
SAS 9¼ 03	03/06/91	15	0	9.05

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MAY 18

EUROCREDITS

Finnair gives terms for aircraft finance

AFTER months of deathly calm, last week was one of the busiest for some time.

Finnair announced the terms under which it was to raise $300m to finance the purchase of McDonnell-Douglas MD-11s and MD-82s. The funds provide 15-year finance for each aircraft but, because it is four years until the final one is delivered, the facility is for 19 years from "door to door." They carry an interest margin over London interbank offered rates of 35 basis points (0.35 percentage points) – aggressive according to many bankers – and a 17½ basis point commitment fee on undrawn amounts. The winning underwriting group comprises Barclays, Dai-Ichi Kangyo, Kansallis Banking, The Long-Term Credit Bank of Japan and Manufacturers Hanover.

Chase Investment Bank is arranging a satellite financing for Orion Network System, but further details have not emerged.

Details emerged for a $345m ship financing for Greenwich Holdings, a private Norwegian company, to buy eight tankers. It comprises a $165m guarantee facility to the Korea Export-Import Bank and a $180m five-year loan. The loan carries an interest margin of 1¼ percentage points.

Barclays is expected shortly to start syndication of a £100m credit for Sealink British Ferries, now part of Sweden's Stena group. That eight-year *amortising facility is secured* on ships and other property and carries an interest margin of ⅞ percentage point over Libor.

In the UK, National Westminster is raising £150m over five years for John Lewis, the retailing group. It carries a commitment fee of 8¾ basis points and an interest margin of 22½ basis points.

NatWest, which with First Chicago is seeking £300m for paper maker Wiggins Teape, is also said to be looking to raise funds for the UK's Beazer group.

A *£300m seven-year credit* for 3i, the UK venture capital specialist largely owned by the clearing banks, is said to carry a 17½ basis point margin for the first four years, rising to 20 basis points after that. The loan is being arranged by S.G. Warburg.

In the US, two large standby facilities are being raised by oil companies. Arco is increasing an existing facility from $3bn to $5bn, and reducing the commitment fee it is paying to ⅛ point from $\frac{3}{16}$ point, while Texaco is raising $1.2bn.

A *growing number of Italian* borrowers are attempting to tap the market, some on very aggressive terms. The most aggressive perhaps is Cassa di Risparmio di Roma, looking for Ecu200m of 10-year money through IMI Capital Markets at an interest margin of 17 basis points.

In other fund-raising for Italian financial institutions, Banco di Napoli is raising $100m through Chase over five-years for a 17½ basis point margin and a 7½ basis point commitment fee. Credito Fon*dario du Toscano is raising* $150m over five years. After the launch in the previous week of a $200m facility for CIR, the Benedetti holding company, the broadcasting concern Radio Televisione Italiana is seeking Ecu100m over five years at a margin of $\frac{3}{16}$ percentage point.

Finnair is not the only Finnish borrower in the market. Apart from the $75m three-year term loan with a $\frac{3}{16}$ point margin being raised by Credit Suisse First Boston for Amer, Enso-Gutzeit is also raising $300m through Commerzbank, Kansallis and Union Bank of Finland. That is said to carry a 22½ basis point margin for years one to four, and 25 basis points for the remaining three years.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	337.0	0.0	1,037.0	14,673.5
Prev	420.0	50.0	0.0	9,783.2
Other	2,045.0	0.0	285.3	3,952.2
Prev	1,183.5	0.0	19.1	5,368.2
Secondary Market				
US$	15,516.9	702.5	7,451.5	9,646.5
Prev	13,133.1	605.1	4,799.1	5,959.5
Other	18,808.2	732.7	4,999.2	51,716.8
Prev	14,547.2	887.1	3,712.1	26,154.9

	Cedel	Euroclear	Total
US$	16,161.4	33,203.5	49,364.9
Prev	12,651.3	22,098.7	34,750.0
Other	34,775.9	47,763.5	82,539.4
Prev	21,980.8	29,891.3	51,872.1

Week to May 17, 1990 *Source: AIBD*

INTERNATIONAL BONDS

AIBD tries to become Euromarket securities exchange

THE Association of International Bond Dealers has made a pre-emptive bid to become the long-term securities exchange for the Euromarkets by making formal approaches to the European *Commission in Brussels.*

Speaking after the association's annual meeting in Amsterdam, Mr John Langton, chief executive, said he believed the AIBD was the only exchange to have voluntarily filed its statutes and rule book with the Commission.

The AIBD is seeking clearance of its rules under Articles 85(1) and 86 of the Treaty of Rome, dealing with competition and the abuse of a dominant position within the EC. It filed its rules at the end of March and is awaiting a response.

"There is a risk that the Commission will come back to us wanting changes on some of our rules, but we will act to defend our members' interests," Mr Langton told the Financial Times. "By addressing the *issue in advance,* we are putting ourselves at the forefront of the development of the European market."

In addition, the AIBD is seeking improved international links with other trade and securities industry bodies to strengthen its position. Dele*gates to the conference* were told that on several issues the association is working closely with the International Primary Markets Association (IPMA).

News of this co-operation was a welcome sign of the AIBD's increasing maturity.

One of the forces driving it is the realisation that its current status as a self-regulatory body gives it little real authority beyond its membership. If its members are uninterested, it has an almost impossible task. There was plenty of evidence for this during an annual meeting dominated by sour behind-the-scenes talks. Superficial diplomacy did little to disguise the tension and frustration felt between the AIBD and the two international clearers, Euroclear and Cedel.

Since the Dallas conference in 1988, the three parties have been discussing plans to introduce a joint communications network which would save the market up to $10m each year. For the last 15 months, they have also been negotiating the implementation of the AIBD's Rule 221, introduced in Janu*ary last year to control the set*tlement of new Eurobond issue grey market trades.

Both these issues were the subject of strong disagreements in pre-conference negotiations. Little progress was made and the AIBD could only *register its frustration.*

Mr Langton told the conference: "The AIBD's role is to bring them together, but we must be realistic. We can't impose a measure on the clearers. They themselves must progress."

Cedel's chief executive, Mr Andrew Lussi, said the lack of progress on the network and Rule 221 reflected the need for free competition between itself and Euroclear. He said that Cedel was willing to accept the involvement of either the AIBD or independent consultants in efforts to remove inefficiencies from the market.

Mr Lussi made the extraordinary unchallenged assertion that the way securities and cash passing between counterparties in the two clearing systems are processed (via an electronic link known as the *bridge) costs the market* $35m of lost interest income each year.

The principal beneficiary of the bridge arrangement is Euroclear. It found itself defending its dominant market position by saying it has *already* made compromises and stands ready in principle to renegotiate the 1980 agreement which brought the structure into existence.

Yet, when the real relevance of what have long seemed arcane debates had been laid before the conference - that the market's participants could save $35m each year if there was level competition between the clearers - it met a wall of indifference.

Not one delegate picked up the $35m figure, nor was it denied by Euroclear.

This apathy had already been in evidence when the AIBD's accounts were reported for approval and some large cost increases went unchallenged.

A detailed report on the collapse of talks to agree on the structure for a joint network *with the clearers failed* to arouse a single question.

The lack of response was symptomatic of the AIBD's growing pains rather than a fundamental malaise. Officials moved after the conference to consider ways of overcoming the *problem* whereby its external authority is handicapped by its internal procedures.

In the short term, the board will discuss the strategy of surveying members on specific issues in order to gain a decisive mandate for future policy initiatives. A survey on the joint network project would give concrete evidence of members' attitudes.

It would also now be prudent for the AIBD to consider altering its annual programme and divorcing the social and business aspects of its conference. *The business at Amsterdam* called for an active and opinionated response from articulate members using the association's rules to direct policy. By holding the annual meeting as usual after two days and nights of hard carousing, the AIBD contributed to the unsa*tisfactory result.*

This issue goes beyond timetabling, however. Members have usually either sent delegates on a rota basis or used attendance at the conference as a reward for staff. As a forum for informing and con*sulting its members,* the annual meeting has begun to look like a textbook case of inadequacy.

There have long been murmurings that it would be sensible to separate business and pleasure. Amsterdam has made that a priority.

Meanwhile, negotiations with the clearers will have to resume. The differences which nearly stopped further talks before the conference are still there, particularly on the network. However, there was a chink of light on Rule 221.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Int. Finance Corp.♦	300	1995	5	$9\frac{1}{4}$	99.65	Deutsche Bk Cap.Mkts	9.341
Swedish National Housing♦	300	1995	5	$9\frac{1}{2}$	$101\frac{1}{2}$	Nomura Int.	9.113
Ford Capital♦	250	1997	7	$9\frac{3}{4}$	100.06	CSFB	9.738
Altus Finance(a)‡♦	200	2000	10	$\frac{1}{16}$	99.95	Credit Lyonnais	-
Japan Development Bank♦	150	1997	7	$9\frac{1}{2}$	101.70	LTCB Int.	9.160
Skand. Enskilda Banken(f)‡♦	100	2000	10	(f)	100	Goldman Sachs Int.	-
KfW Int. Finance♦	300	1995	5	$9\frac{1}{4}$	$99\frac{5}{8}$	Deutsche Bk Cap.Mkts	9.347
Mitsubishi Trust A'tralia(l)♦	*50*	*2000*	*10*	*(l)*	*102*	*UBS Phillips & Drew*	-
Asian Development Bank(j)♦	300	2000	10	$9\frac{1}{8}$	99.195	Shearson L'man Hutton	9.252
EIB(j)♦	300	2002	12	$9\frac{1}{8}$	99.32	First Boston Corp.	9.221
CANADIAN DOLLARS							
Nordic Investment Bank♦	100	1993	3	13	101.90	ScotiaMcLeod	12.206
AUSTRALIAN DOLLARS							
NatWest Australia(d)♦	25	1993	3	$15\frac{1}{8}$	$101\frac{3}{4}$	NatWest Cap. Markets	14.367
Tasmanian Public Finance♦	50	1993	3	$15\frac{1}{4}$	101.40	Deutsche Bk Cap.Mkts	14.640
Swedish Export Credit(g)♦	50	1991	1	18	$101\frac{3}{4}$	Bankers Trust Int.	15.971
D-MARKS							
New Zealand(b)‡♦	300	1997	7	$-\frac{1}{16}$	100	CSFB-Effectenbank	-
Okobank(c)‡♦	200	2000	10	$\frac{1}{32}$	100.30	DG Bank	-
SWISS FRANCS							
Caisse Nat. des Telecom.♦	200	2000	-	$7\frac{1}{4}$	$101\frac{1}{4}$	Credit Suisse	7.071
General Motors Corp.♦	100	1995	-	$7\frac{1}{2}$	102	Credit Suisse	7.012
Inter-American Dev. Bank♦	*100*	*2000*	-	$7\frac{1}{2}$	*102*	*SBC*	7.212
Council of Europe♦	150	2000	-	$7\frac{1}{4}$	101	Banca del Gottardo	7.107
City of Copenhagen(k)♦	100	2000	-	$7\frac{1}{2}$	102	UBS	7.212
First City Trust(n)§♦	20	1998	-	$7\frac{1}{2}$	(n)	S.G. Warburg Soditic	-
STERLING							
Bradford & Bingley(e)‡♦	50	1999	$9\frac{1}{3}$	$\frac{1}{16}$	99.37	CSFB	-
Finnish Export Credit♦	200	1991	$1\frac{1}{2}$	16	$101\frac{7}{8}$	Merrill Lynch Int.	14.313
Nationwide Anglia(h)‡♦	150	1995	5	10bp	100	Baring Brothers	-
ECUs							
Council of Europe♦	100	1992	2	$10\frac{1}{2}$	$101\frac{1}{8}$	Merrill Lynch Int.	9.853
British Telecom Finance♦	100	1995	$4\frac{3}{4}$	$10\frac{5}{8}$	101.675	Bk of Tokyo Cap. Mkts	10.137
Compagnie Bancaire♦	60	1992	2	11	101.85	Paribas Capital Markets	9.935
World Bank♦	125	1995	5	$10\frac{3}{8}$	101.55	CCF	9.966
A/S Eksportfinans♦	100	1995	5	$10\frac{1}{2}$	$101\frac{7}{8}$	Merrill Lynch Int.	10.005
Credit Local de France♦	125	1993	3	$10\frac{3}{8}$	101.30	Paribas Capital Markets	9.854
Eurofima♦	125	1995	5	$10\frac{3}{8}$	101.65	Credit Lyonnais	9.940
Interfin. Cr. National(i)‡♦	30	1995	5	-25bp	100.10	Sanwa Bank Int.	-
LIRE							
Procter & Gamble♦	125bn	1993	$3\frac{1}{2}$	13	101.80	San Paolo Bank	12.268
LUXEMBOURG FRANCS							
Belgelectric *Finance*★★♦	600	1994	*4*	$9\frac{7}{8}$	*102*	*Credit Europeen*	9.254
Fokker NV★★♦	600	1993	3	10	$101\frac{7}{8}$	Kredietbank Int.	9.256
Banque Indosuez-Paris★★♦	600	1996	6	$9\frac{7}{8}$	102	Banque Indosuez	9.424
Lease Plan Holding★★♦	300	1993	3	10	101.90	BGL	9.246
YEN							
Credit Agricole♦	20bn	1993	$3\frac{1}{4}$	7.4	$101\frac{3}{8}$	Mitsui Taiyo Kobe	6.897
Hovedstadsreg.Naturgas♦	7bn	1994	4	7.1	101.15	Nippon K. K'maru Secs.	6.882
Swedish Nat. Housing(m)♦	10bn	1995	5	$8\frac{1}{2}$	$101\frac{7}{8}$	Mitsui Taiyo Kobe	-
Scand. Airlines System♦	10bn	1997	7	6.9	101.30	Daiwa Secs.	6.776

★★Private placement. ‡Floating rate notes. §Convertible. ♦Final terms. a) Coupon pays $\frac{1}{16}$ over 6-month Libor. Call at par June 1995 and on coupon dates thereafter. b) Coupon pays $\frac{1}{16}$ under 3-month Libor. Call after five years at 100. c) Coupon pays $\frac{1}{32}$ over 6-month Libor. Put and call after five years at 100. d) Fungible with A$50m bond launched March 1990. e) Coupon pays $\frac{1}{16}$ over 3-month Libor. First coupon $\frac{1}{16}$ over one-month Libor. Fungible with £150m FRN launched October 1989. f) Coupon pays 25bp over 6-month Libor years 1-5, 45bp over 6-month Libor years 6-10. Call after five years at 100 and on coupon dates thereafter. g) Dual-currency bond. Borrower option to redeem in US$ at exchange rate of 0.735. h) Coupon pays 10bp over 3-month Libor. i) Coupon pays 45bp over 6-month Libor years 1-3, 10% fixed thereafter. Call after three years at 100. j) Launched on US domestic market. Non-callable. k) Call after five years at $102\frac{1}{2}$ declining $\frac{1}{2}$% p.a. l) Coupon pays 25bp under 3-month Libor. Put option on payment dates. m) Coupon payable in A$. n) Exchange offer of SFr75m straight bond paying 6% 1986/96 for new convertible bond. Note: Yields are calculated on AIBD basis.

INTERNATIONAL COMPANIES AND FINANCE

Underlying income falls sharply at Montedison

By Haig Simonian in Milan

MONTEDISON, the Italian chemicals group which owns a 40 per cent share of Enimont, the country's public-private chemicals concern, yesterday reported a 73 per cent rise in consolidated group earnings to L1,156bn ($949m) last year.

However, stripped of extraordinary gains stemming from revaluations linked to last year's creation of Enimont, group net income fell sharply to L362bn from L490bn. The drop came despite a 7 per cent rise in sales to L5,861bn thanks to acquisitions and higher energy sales.

Enimont is expected today to disclose the name of its $1bn acquisition target amid a welter of speculation after the company revealed its spending plans last week.

Among names mentioned are Polysar, a subsidiary of Canada's Nova Corporation, ICI's polypropylene operations and even Montedison's own Ausimont fluorides subsidiary. Both Enimont and its two main shareholders remained tight-lipped yesterday.

Montedison attributed its profits fall to a squeeze on margins, notably in the second half of 1989, stemming from much higher costs for raw materials, notably propylene. Meanwhile, market conditions for many end products deteriorated as a result of oversupply and greater competition, notably in polymer materials.

The group, which is maintaining its dividend at L50 and L70 for ordinary and savings shares respectively, said the performance followed an "exceptionally good" 1988.

However, it earned L302bn from investments against a loss of L76bn in 1988, reflecting equity-accounted income from Enimont, which announced its profits last week. Meanwhile, group financial charges also fell, thanks to the Enimont transaction, to L400bn from L765bn.

Net financial indebtedess at the end of last year dropped to L4,241bn against L6,007bn, despite Montedison's acquisition of outstanding minority interests in Ausimont and Erbamont, another subsidiary.

The company said market conditions had improved in the opening months of this year, thanks to falling prices for certain key petrochemicals intermediates. However, despite signs of improvement, notably on the polymers side, the company warned that conditions "have remained basically stable at around second-half 1989 levels."

Thus consolidated sales in the first quarter of this year fell 6 per cent to L1,330bn, additionally depressed by the current strength of the lira.

Framatome loses first court fight with CGE

By William Dawkins in Paris

FRAMATOME, France's leading nuclear plant builder, has lost the first skirmish in its court battle against attempts by CGE, the electronics and engineering group, to gain control of the company, but has been told that it has a legally valid case.

The Paris Commercial Court has thrown out a request by Framatome for the sequestration of all or part of CGE's recently acquired majority stake in the plant builder, which is fighting against CGE for its independence.

But it ruled that Framatome does have the right to question the regularity of the transfer of CGE's stake from the state sector to the private sector, which resulted from CGE's privatisation in 1987.

CGE last month bought 12 per cent of Framatome from Dumez, a French construction company, adding to its existing 40 per cent.

A row over group strategy has threatened to divide the French Government, which has been searching for two months for a peace compromise.

Framatome is strategically sensitive, as supplier of nuclear plant to a country which depends on nuclear power for 70 per cent of its electricity, the highest proportion in the world.

Public sector shareholders, through the CEA atomic energy authority and EDF electricity board, own 45 per cent of Framatome.

Framatome had asked for CGE shares to be frozen while the court dealt with its basic claim, that CGE should be stripped of its voting rights because its original stake had been irregularly passed from the state sector to the private sector.

Although the court ruled that there was no pressing reason to sequester CGE's shares, it accepted that Framatome had a legally acceptable case over the regularity of the shift in status of its largest single shareholding stake. The court is due to tackle that claim on June 25, the next important phase in the battle.

Compaq unveils low-cost range

By Louise Kehoe in San Francisco

COMPAQ COMPUTER is today due to launch a series of personal computer products with prices that rival those of "clone" machines manufactured in the Far East.

The new range represents a significant shift of strategy for Compaq, which has won second place in the US and European personal computer markets based on its reputation for high-performance, fully-featured desktop and portable personal computers with premium prices. The new stripped-down versions of Compaq's 286 and 386 desktop models will be priced in the US at $1,700 to $3,200, roughly $1,000 below Compaq's current prices for similarly powered computers.

Compaq is aiming the new products at corporate customers building personal computer networks.

"Compaq is the world leader in local area network servers," says Mr Mike Swavely, president of its North American operations. However, Compaq's network servers often end up controlling a network of lower-priced clones of Compaq machines.

He expects the new Deskpro 286N and 386N to help it win a larger share of the networking business.

Although Compaq risks undermining its current products, the new models are less expandable, and will appeal to different types of buyers, the company says.

Swiss financier buys into HK

MR STEPHAN Schmidheiny, the Swiss financier, has bought a controlling stake in Cosa Liebermann, a Hong Kong-based trading group, writes William Dullforce in Geneva.

Cosa Liebermann has 3,000 employees and trades industrial machinery and branded consumer goods, such as Cartier watches and Bally shoes.

Until now, Mr Schmidheiny has had no interests in Asia or in this type of trading.

Singapore Airlines slows

By Our Financial Staff

SINGAPORE Airlines (SIA), the island's flag carrier, boosted group net profits 21.8 per cent to S$1.2bn (US$649m) in the year to March, during which it formed a marketing and shareholding tie-up with Delta of the US and Swissair.

Passenger and freight traffic was up 9.9 per cent, but is expected to achieve only an 8.8 per cent gain this year and has been declining since 1988/89 when it was up 12 per cent.

The earnings rise in the latest year – although outstripping an 11.4 per cent gain in revenues to S$5.1bn – was slower than the 63.5 per cent advance in the previous period, held back in part by higher fuel and wage bills.

Net profit was lifted by a change in the fleet depreciation rate, which saved the company S$198m. SIA also had a S$195m surplus from aircraft sales.

Phillips & Drew recruits advisers

By David Lascelles, Banking Editor

SIR GEORGE Blunden, the former deputy governor of the Bank of England, and Sir Peter Walters, former chairman of British Petroleum, are becoming advisers to UBS Phillips & Drew, the London investment banking arm of the Union Bank of Switzerland.

Mr Rudi Mueller, vice president for the UK, said the two men would bring to the group their combined knowledge of finance and industry. They will start on June 1.

The appointment of the two establishment heavyweights comes as UBS Phillips & Drew is trying to re-establish itself in London after suffering severe losses in the late 1980s.

Since disclosing its problems early last year, the group has reorganised its UK operations and now has ambitions to become a leading player in the European investment and banking markets.

"This gives us the stamp of acceptability," said Mr Mueller.

UBS Phillips & Drew's aim was to be recognised as a major operation in its own right "and not just because we have deep pockets in Switzerland."

UBS has not reported any results for UBS Phillips & Drew for last year. Mr Mueller said it was "a year of reconstruction" which produced another loss, though this time much smaller.

UBS had budgeted for a further loss this year, but in the first four months the unit was in profit.

This was encouraging, Mr Mueller said, though the result in terms of return on equity was still well below the target of 20 per cent after tax, mainly because of the expense of building up the group's new corporate finance division.

However, the division recently won a substantial piece of business when it was appointed manager and underwriter to the forthcoming Pta83.2bn ($807m) placement of the industrial holdings of Banesto, the Spanish bank.

There was still overcapacity in the London securities markets which made for difficulties on that side of the operation, Mr Mueller said. But UBS was sticking to its belief in having an integrated investment banking strategy. "I am quite optimistic about the prospects after two or three years," he said.

The group is reviewing its wider European strategy, particularly with a view to building up its presence in Paris and Frankfurt.

JAPANESE RESULTS

High borrowing costs hit consumer finance groups

By Martina Gannon in Tokyo

ORIENT CORP and Nippon Shinpan, Japan's top consumer finance groups, have reported disappointing results for the year to March as a result of rising financing costs.

Pre-tax profit at Orient, the largest consumer credit company, at Y33.4bn ($211m), was only fractionally ahead of the previous year's Y33bn.

Orient said rising financing costs were offset largely by rises in trading volume. The total sales for the year were Y353.6bn, compared with last year's Y331.6bn. Net income was Y16.1bn, up from Y13.9bn.

Orient said it aimed to boost its nationwide marketing of residential land in 1991, targeting pre-tax profits of Y34bn, up 1.6 per cent.

Nippon Shinpan's pre-tax profit eased 1.8 per cent to Y25.98bn mainly because interest charges on borrowings rose by 24 per cent to Y106bn. Shopping credit and loan businesses continued to be brisk, enabling the company to boost sales by 10 per cent to Y288.4bn.

Net income for the year was down 8.5 per cent to Y9.2bn. In the current year, the company fears a pre-tax profit plunge of 57.6 per cent mainly because of higher interest costs.

Top property companies show substantial growth

By Martina Gannon

MITSUI Real Estate Development and Mitsubishi Estate, Japan's two leading property companies, showed substantial profits growth in the year to March as property prices and rents continued to climb.

Mitsubishi's pre-tax profits rose for the 14th consecutive year, to Y85.4bn ($540m) from Y76.2bn. The company had net income of Y43.8bn compared with Y35.5bn, and sales rose 14.8 per cent to Y314.9bn as demand for property in the Greater Tokyo area grew.

Mitsui, the sales subsidiary which was listed on the Tokyo Stock Exchange last December, recorded a pre-tax profit rise of 15.5 per cent to Y52.7bn in the year. Sales were up 28.6 per cent on the previous year to Y604.2bn and the company's net income was Y29bn from last year's Y22.6bn.

The demand for property is expected to continue to grow in 1991. Mitsui projects a pre-tax profit rise of 18 per cent to Y710bn, mainly from apartment block sales and income from rents on new buildings. Mitsubishi is aiming for a 3 per cent increase in pre-tax profits for 1991 to Y88bn.

Exports boost Alps Electric

ALPS ELECTRIC, the Japanese electronic components group, has reported a 64.3 per cent rise in pre-tax profits in the year to March to Y11.9bn ($75m), thanks mainly to the effect of yen weakness on export margins, writes Ian Rodger in Tokyo.

Overall sales were up only 2.3 per cent to Y313.9bn, with demand for computer printers and floppy disks sluggish. Exports, which accounted for some 30 per cent of overall sales, were especially profitable.

Net profit was up only 0.1 per cent to Y6.1bn.

Okuma advances 37%

By Ian Rodger in Tokyo

PRE-TAX profits at Okuma Machinery Works, one of Japan's top machine tool makers, surged 37 per cent to Y9.8bn ($62m) in the year to March on sales up 16.8 per cent to Y101.9bn.

The new directors of the company, which was rocked by a boardroom upheaval two years ago, have raised the dividend from Y6.25 to Y6.5 per share.

Okuma said orders rose 26.9 per cent last year in the machine tool division and 24.7 per cent in the industrial machinery division, with domestic demand especially strong. Net income jumped 67 per cent to Y5.2bn.

The company is forecasting a pre-tax profit of Y10.9bn, up 11.4 per cent, in the current year.

● Makino Milling Machine said pre-tax profits doubled to Y7.3bn on sales up 23 per cent to Y55.6bn in the year to March. Net income jumped 2.4 times to Y3.7bn. The annual dividend has been boosted from Y5.5 to Y7 per share. The company forecast a pre-tax profits rise of 19 per cent this year to Y8.8bn.

Weak yen lifts Yamaha Corp

PRE-TAX profit of Yamaha Corp, the Japanese musical instruments and sporting goods group, rose 16.9 per cent to Y12.1bn ($76m) in the year to March, thanks largely to the weaker yen, writes Ian Rodger in Tokyo.

This was in spite of a 3.2 per cent decline in sales to Y384.7bn. The company said this was due mainly to an inventory adjustment for exports of electronic musical instruments. Net profit was up 15.6 per cent to Y4.3bn.

For the current year, Yamaha is forecasting a pre-tax profit of Y13.5bn.

UK COMPANY NEWS

Fisons may face questions over its peat activities

By Nikki Tait

AFTER Greenpeace protesters at the annual meeting of Imperial Chemical Industries, Chippewa Indians at RTZ and anti-apartheid campaigners at BTR and Shell, it appears that Fisons, the diversified pharmaceuticals, horticulture and scientific equipment group, may face questions from the enviromentalist lobby tomorrow.

The concerns centre on the threat to lowland peatlands from commercial peat extraction, an activity which forms part of Fisons' horticultural division.

In advance of tomorrow's annual meeting, Friends of the Earth – the enviromental pressure group and one of ten public interest groups involved with the Peatlands Campaign – has asked Pensions Investment and Research Consultants to lobby institutional shareholders over the issue. PIRC, in turn, says that it has contacted investors speaking for 42 per cent of Fisons' shares.

At least one shareholder – the London Borough of Lewisham, which holds around 384,000 shares in Fisons – has confirmed that it is instructing PIRC to raise questions on the matter at the meeting.

The enviromentalists are suggesting that all peat-cutting operations should be phased out as quickly as possible, within five years, and that technology and investment should be transferred to developing renewable peat alternative for the market.

Fisons' annual report, however, seemed to anticipate problems. The company pointed out that during 25 years as an enviromentally-concerned owner of peatlands, it had given more than 10 per cent of its total holdings to conservation.

These, it said, included 106 acres in Yorkshire which were being developed as a Nightjar habitat.

The entire horticultural division made a trading profit of £8.1m in 1989 out of a group total of £167m.

UniChem members back plans for float

By Jane Fuller

MEMBERS of UniChem, one of Britain's biggest pharmaceutical wholesalers, have given their backing to plans to become a public company and float on the Stock Exchange.

At the annual meeting yesterday, nearly 2,800 members voted in favour of a resolution that UniChem should convert to a public company. Only 112 voted against. More than 1,200 of the 4,300 members – the independent chemists who own the co-operative – attended the meeting at Thorpe Park, Staines.

The conversion to a public company should take place on July 2, assuming the annual-meeting vote is rubber-stamped at another meeting on June 8. The board made it clear that the conversion would be followed by a flotation.

UniChem plans to float in November by means of an introduction and rights issue to raise £25m.

The company made a pre-tax profit of £14.5m on sales of £783m in 1989. Its members run about 5,000 shops, about 50 per cent of the country's independent pharmacies. About a year ago, Phillips & Drew valued the concern at £110m.

Mr David Mair, UniChem's chairman, said he expected members to retain control of the company after flotation, but being a quoted company would enable it to look at new business opportunities. These would include a franchise scheme and links with European pharmaceutical wholesalers.

B&C seeks 'orderly reconstruction'

By Jane Fuller

THE MAIN bankers to British and Commonwealth Holdings, the stricken financial services group, were yesterday stressing the arguments for what is politely called "an orderly reconstruction" of the group, after a Sunday newspaper published details from a leaked document.

B&C's proposed rescue plan, prepared with the help of its merchant bank S G Warburg, involves the writing down of its £1bn debt and a programme of asset sales, leaving a small rump.

The write-downs are understood to include 25 per cent of the £700m first-tier debt – mainly owed to banks and unsecured loan stockholders – and 70 per cent of the £320m second-tier convertible unsecured loan stock.

The biggest part of the asset sale would be Exco International, the money broking subsidiary. Among the other candidates for sale are the Oppenheimer fund management operation and B&C Merchant Bank. Estimates of £825m and £750m have been made of the total that might be raised by the disposals.

A spokesman for Barclays Bank, which is leading a group of 10 major banking creditors, said the only surprising things about the latest revelations, in the Sunday Telegraph, were that a document had been leaked, in breach of confidentiality agreements, and the implication that the banks had made a decision, which they had not.

He confirmed that the banks were keen to avoid the forced liquidation of B&C because it would take longer and yield less.

After speaking to other groups of creditors, he said there seemed to be a willingness to go along with "the orderly reconstruction proposed by the board of B&C."

One of the points made in the rescue plan is that a forced sale might yield little more than half what might be expected from the orderly alternative.

Details of the rescue have been emerging over the past couple of weeks as B&C, with Warburgs, has made presentations to sets of creditors. This round has entailed the handing out of secret documents.

Various sets of creditors have jibbed at the rescue plan. Early on, one top-tier lender, objecting to a 25 per cent write-down, said: "Why should we sacrifice our senior position for other people further down the ladder?"

Lower down that ladder, the CULS holders have been considering whether to press for immediate repayment, despite warnings that this would push the group into bankruptcy.

B&C has retaliated that if it were put into administration or liquidation, holders of anything other than senior debt would be unlikely to receive any repayment.

A poser facing the corporate trustees

By David Owen

THE British & Commonwealth affair has prompted calls for a review of whether corporate trustees such as Law Debenture Corporation should be able to assume responsibility to act for lenders who would be at different positions in the creditors' hierarchy in the event of a borrower's liquidation.

The matter arises because of LDC's trusteeship of three issues of B&C bonds which rank in different tiers of the troubled financial services group's debt structure.

Earlier this month, LDC appointed Royal Exchange Trust as its attorney to act as trustee under the deed constituting £320m worth of 7¾ per cent convertible unsecured loan stock (CULS) which comprises the second tier of B&C debt.

This was because of a possible conflict between the interests of the CULS holders on the one hand and holders of both £220.4m worth of 10¼ per cent unsecured loan stock (ULS) and £72m worth of 10½ per cent guaranteed sterling bonds on the other. Both the ULS and the bonds rank alongside bank loans in the top tier of B&C debt.

The question now raised is whether LDC should have been permitted to assume trusteeship of issues where a potential conflict might arise in the first place.

"The conflict should have been foreseen", according to Mr Roger Pincham, associate director of Gerrard Vivian Gray whose clients hold approximately £3m nominal of the CULS.

"For the same trustee to take responsibility for separate classes of stockholder seems to be fundamentally inappropriate. I think the companies who perform this function should review the situation as a matter of urgency."

"The B&C issue has called into question what should happen when differential credit levels are involved", concurred Mr Paul Hilton of SG Investments, a strong advocate of the CULS holders rights. "The whole matter needs investigation."

According to Mr David Norris, trust manager at LDC, however, "conflict is not something trustees enter into lightly." He added : "In by far the majority of cases the conflict never arises".

On this basis, he felt, trustees would be prepared to take on trusteeships at different debt levels. "Administration of the capital loans is greatly facilitated by only dealing with one party and there is a mechanism for appointing a trustee if a conflict does rear its head", he said.

Mr Norris suspected that there were other examples similar to B&C in LDC's portfolio of more than 1,800 debt issues – "but I cannot be sure."

With regard to B&C, he said: "When it was taken on it was not envisaged that there would be a problem; we took it on when John Gunn was the market's favourite."

Sharp downturn at Lendu

LENDU Holdings, which has interests in rubber, sheep farming and grain production, suffered a profits fall of £890,000 to £138,000 pre-tax for the 1989 year.

Although weaker wool and rubber prices were partly blamed for the downturn, the directors pointed out that the previous year's figures contained disposal profits of £430,000 and exchange gains amounting to some £250,000.

Turnover advanced to £546,343 (£457,732). Earnings amounted to 0.89p (6.73p) and shareholders are to receive a proposed single final dividend of 0.7p (0.9p).

Higher interest rates take toll on Harding

HIGHER INTEREST rates, resulting in lower capital investment in both industry and construction, affected profits at Harding Group, the USM-quoted distributor of electrical and engineering supplies.

The pre-tax result slid from £1.25m to £821,000 for 1989 in spite of a £7m increase in turnover to £28.48m. The directors said that margins would be difficult to restore while current conditions prevailed, although as a result of steps already taken they expected some progress during the current year.

They are proposing to maintain the dividend at 2.75p with a same-again 1.65p final, payable from lower earnings of 3.64p (7.15p) per share. There was an extraordinary £124,000 (£74,000) charge.

NEWS IN BRIEF

ARTHUR MAIDEN, the privately-owned outdoor poster contractor, has consolidated its position as number two in the 48-sheet market with the purchase of additional sites from Chantry. Maiden now has 8,700 sites for 48-sheet (20 ft wide by 10 ft high) posters, compared with 10,851 for Mills & Allen.

OVERSEAS INVESTMENT TRUST increased net asset value per 25p ordinary share from 260.7p to 277.8p over the year ended March 31 1990. After-tax revenue for the six months to end-March totalled £492,00 (£512,000), equal to earnings of 1.29p (1.37p). The interim dividend is 0.75p (0.7p).

ERF makes £3.3m disposal

ERF (Holdings) has disposed of ERF Plastics to Netherlands-based DSM for £3.3m in cash. In addition, DSM will assume intergroup borrowings of £1.2m.

ERF Plastics had pre-tax profits of £846,000 for the year to March 31 and assets of £624,000. ERF has entered into a long-term supply agreement with DSM and ERF Plastics.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Carlton Communications, F & C Eurotrust, Fairfine Boats, Great Western Resources, McLeod Russel, Radio City (Sound of Merseyside), USKO, Wharfedale.
Finals- Goldsmiths, Ralston Investment Trust, Scott's Restaurant, Tern.

FUTURE DATES

Interims-

Doctus	May 31
Grayfriars Investment	May 24
Shaftesbury	May 25
Tunstall	May 29
Finals-	
British-Borneo Petroleum	May 25
City of London PR	May 29
Elswick	May 24
Henderson Administration	June 1
Mercury Asset Management	May 29
Rolfe & Nolan Comp Serv	May 29
TDS Circuits	June 1
Thorn EMI	May 31
Toshiba	May 24
Warburg (S G)	May 29

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

LEICA (Section: Electricals).
Pelsart Resources (Mines - Australians).

Samson Exploration (Mines - Australians).

Venturi Inv. Trust (Ord. Geared, Income & Capital Indexed shs.) (Investment Trusts).

All-round growth helps Speciality Shops rise 13%

IN SPITE of difficult economic conditions brought about by a slowdown in consumer spending and high interest rates, Speciality Shops achieved a 13 per cent increase in profits to £1.4m pre-tax for 1989.

Turnover of the group, which specialises in retail property development and management, improved from £5.79m to £22.61m and operating profits doubled to £2.5m.

Interest charges accounted for £1.12m (£13,000). An extraordinary item of £201,000 (£11,000) represented an investment property disposal in December.

All areas of the group performed well with the profits increase reflecting, in particular, strong growth in rental income which more than doubled to £1.86m.

At year-end net assets amounted to £33.3m – or 139p (123p) per share.

Mr David Houghton, chairman, said that although the outlook for the retail and property markets remained uncertain, the group had an excellent portfolio of shopping centres with increasing rental income and a sound financial base which would enable it to take advantage of opportunities as they arose.

Speciality Shops is currently a private company but it is likely that a listing will be sought in the medium term.

ENGELS – HOLLANDSE BELEGGINGS TRUST N.V.
(English and Dutch Investment Trust)
Established in Amsterdam
PARTICIPATION CERTIFICATES
(Issued by Royal Exchange Assurance)

NOTICE IS HEREBY GIVEN that a gross dividend on the Participation Certificates of Dfls. 5.25 (five florins and twenty five cents) will be payable in Sterling on or after 29th May 1990 against presentation of coupon no. 40.

The dividend will be payable as follows, subject to the provision of the appropriate Netherlands Tax Affidavit where necessary.

To Certificate Holders who are subject to United Kingdom Income Tax, less 15 per cent Netherlands Withholding Tax, and United Kingdom Income Tax at 10 per cent on the gross dividend.

To residents of other countries with which The Netherlands have concluded tax agreements, under deduction of 15 per cent Netherlands Withholding Tax.

To residents of all other countries, less 25 per cent Netherlands Withholding Tax.

Certificate Holders resident outside the United Kingdom will receive payment less United Kingdom Income Tax at the rate of 25 per cent on the net amount unless the coupons are accompanied by a United Kingdom Affidavit of non-residence. The aforementioned rates of tax apply only in respect of coupons presented for payment up to and including 27th November 1990. Thereafter Netherlands Withholding Tax will be deducted at the rate of 25 per cent and the United Kingdom Income Tax, where applicable, at the rate of 25 per cent from the net Sterling amount.

For the period of 29th May 1990 to 27th November 1990 the dividend will be paid in Sterling at the rate of exchange ruling on the day of presentation of the coupons. Coupons presented thereafter will be paid in Sterling at the rate of exchange ruling on the 27th November 1990.

To obtain payment, coupon no. 40, must be presented at the office of Hill Samuel Bank Limited, 45 Beech Street, London EC2P 2LX. ("the Paying Agent")
Coupons must be listed in numerical order on special forms obtainable from the Paying Agent and must be left three clear days for examination.

Copies are available on request to the Paying Agent at the above address of the present Conditions relating to the Participation Certificates which Conditions replace those printed on the back of the existing Participation Certificates.

From January 1st, 1990 holders of Participation Certificates will be entitled to convert their Certificates into ordinary shares quoted in Amsterdam. Holders wishing to convert should apply to the Paying Agent to obtain the necessary forms.

ROYAL EXCHANGE ASSURANCE
One Aldgate, London EC2N 1RE

COMMERZBANK

PAYMENT OF DIVIDEND

NOTICE IS HEREBY GIVEN to shareholders that following a resolution passed at the Annual General Meeting of shareholders held on 18th May, 1990 a Dividend for the year ended 31st December, 1989 will be paid, as from 21st May, 1990 at the rate of DM. 9.00 per share of DM. 50 nominal, against presentation of Coupon No. 50 or lodgement of London Deposit Certificates for marking Square No. 13.

Holders of Profit Sharing Certificates are entitled to a distribution equivalent to 9.75 per cent. per annum for the year ended 31st December, 1989 and will receive DM. 9.75 for each DM. 100 nominal held against presentation of Coupon No. 5.

All payments will be subject to a deduction of German Capital Yields Tax at 25%.

Coupons and London Deposit Certificates should be lodged with:-

S.G. WARBURG & CO. LTD.
Paying Agency,
2 Finsbury Avenue,
London EC2M 2PA

from whom appropriate claim forms can be obtained.

Coupons may also be lodged with:-

COMMERZBANK AG.
London Branch,
10/11 Austin Friars,
London EC2P 2JD.

Coupons will be paid at the rate of exchange on the day of presentation.

Payment in respect of London Deposit Certificates will be made at the rate of exchange ruling on the day of receipt of the dividend on the equivalent shares deposited in Germany.

United Kingdom Income Tax will be deducted at the rate of 10% unless claims are accompanied by an affidavit.

German Capital Yields Tax deducted in excess of 15% is recoverable by United Kingdom residents. The Company's United Kingdom Paying Agent will, upon request, provide shareholders or their agents with the appropriate form for such recovery.

21st May, 1990 COMMERZBANK AKTIENGESELLSCHAFT

TOPS SERIES II LIMITED
(Incorporated with limited liability in the Cayman Islands)

U.S. $100,000,000
Series II Amortising Floating Rate Trust Obligation
Participation Securities due 1992

Secured by a Charge on a Portfolio of Fixed Rate Bonds and Notes with an aggregate principal amount of U.S. $125,100,000

For the period 18th May, 1990 to 20th August, 1990, the securities will carry an interest rate of 8⅝% per annum with an interest amount of U.S. $5,589.41 per U.S. $250,000 denomination and U.S. $11,178.82 per U.S. $500,000 denomination, payable on 20th August, 1990.

Listed on the Luxembourg Stock Exchange

Bankers Trust Company, London — Agent Bank

THE KINGDOM OF BELGIUM

U.S. $100,000,000
FLOATING RATE BONDS
DUE NOVEMBER 1995

In accordance with the provisions of the Bonds, notice is hereby given that the Rate of Interest for the eighth Interest Period from the 21st May 1990 to 20th November 1990 has been fixed at 8.4375 per cent per annum.

Interest payable on each US $250,000 on the relevant interest date, 20th November 1990 will be US $10722.66.

SVENSKA INTERNATIONAL PLC.
Agent

U.S. $10,000,000
The Chase Manhattan Corporation
Floating Rate Oil-Linked Notes due 1994

For the six months interest period from May 21, 1990 to November 21, 1990 the interest rate has been determined at 8⅝% per annum. The amount payable on the relevant interest payment date, November 21, 1990, will be U.S. $438.75 per U.S. $10,000 principal amount.

By: The Chase Manhattan Bank, N.A.
Calculation Agent

May 21, 1990 CHASE

COMPAGNIE DE SAINT GOBAIN
Public Company with a capital of
F 5,320,491,800.-
Registered Office "Les Miroirs"
18, avenue d'Alsace
92400 COURBEVOIE
R C S NANTERRE B 542 039 532

Participating stock April 1984 of ECU 1.000 each

As the general Meeting provided on May 16, 1990 for the participating stock owners of ECU 1.000 issued in April 1984 by SAINT GOBAIN, could not deliberate, missing the quorum, the participating stock owners are again convened by the board of directors in general Meeting as of May 30, 1990, at 11:45 at the registered office of the Company, "Les Miroirs" 18, avenue d'Alsace in COURBEVOIE (92400). This meeting will count on the following agenda:

- Election of the representatives of the masse
  Determination of their powers and remuneration.
- Board of directors' report on the company's operations for financial year 1989.
- Auditors' report on financial year 1989 accounts and elements for fixing the participating stock yield.

To attend the meeting the participating stock owner will have to provide a blocking affidavit issued by the banks and in order to appoint a deputy at the meeting they will have to add a proxy to this affidavit.

The deposit affidavit and the power must for the meeting of the May 16, 1990 still available for the hereby mentioned meeting.

The Board of Directors

THE TOKYO ELECTRIC POWER COMPANY, INCORPORATED

Japanese Yen 60,000,000,000
Floating Rate Notes Due 1992

In accordance with the provisions of the Notes notice is hereby given that for the six month period, 21st May, 1990 to but excluding, 20th November, 1990 the Notes will carry an interest rate of 7.75 per cent per annum. The Coupon will be Japanese Yen 388,507 on the Notes of Japanese Yen 10,000,000. The relevant interest payment date will be 20th November, 1990.

Mitsui Taiyo Kobe Trust International Limited
(Agent Bank)

CIVAS 5 LIMITED
Yen 9,000,000,000
Secured Floating Rate Notes due 1994

Interest Rate 7.8276% p.a. Interest Period May 21, 1990 to November 20, 1990. Interest Payable per Yen 1,000,000 Note Yen 38,773.

May 21, 1990, London
By Citibank, N.A., (CSSI Dept.), Agent Bank

Christiania Bank og Kreditkasse
(Incorporated in the Kingdom of Norway with limited liability)

U.S.$100,000,000
Floating Rate Subordinated Notes Due May 1995
(of which U.S.$75,000,000 has been issued as Initial Tranches)

Notice is hereby given that the Rate of Interest has been fixed at 10.5% and that the interest payable on the relevant Interest Payment Date November 21, 1990 against Coupon No. 11 in respect of US$10,000 nominal of the Notes will be US$536.67 and in respect of US$250,000 nominal Notes will be US$13,416.67.

May 21, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

REPUBLIC OF ICELAND

U.S.$100,000,000 Floating Rate Notes Due 1994

Notice is hereby given that the rate of interest has been fixed at 8.7125% and that the interest payable on the relevant interest payment date, November 21, 1990 against Coupon No. 3 in respect of US$10,000 nominal of the notes will be US$445.31.

May 21, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

THE CHUGOKU ELECTRIC POWER COMPANY, INCORPORATED

Japanese Yen 20,000,000,000
Floating rate notes 1992

Notice is hereby given that the rate of interest for the six month period 21 May 1990 to 21 November 1990 has been fixed at 7⅞%. The amount payable on 21 November 1990 will be Yen 386,528 per Yen 10,000,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

FINANCIAL TIMES STOCK INDICES

	May 18	May 17	May 16	May 15	May 14	May 11	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	78.74	78.49	76.91	77.05	76.95	77.05	84.20	74.13	127.4	49.18
Fixed Interest	87.27	86.93	86.13	86.13	86.07	85.93	92.91	83.80	105.4	50.53
Ordinary	1793.3	1795.7	1739.8	1731.6	1733.5	1708.8	1968.3	1653.6	2008.6	49.4
Gold Mines	207.1	217.1	218.0	217.8	224.2	227.7	378.5	207.1	734.7	43.5
FT-Act All Share	1117.16	1122.46	1094.43	1089.69	1090.89	1074.94	1226.83	1043.16	1238.57	61.92
FT-SE 100	2269.1	2284.4	2221.1	2212.2	2214.5	2175.9	2463.7	2103.4	2463.7	986.9

FINANCIAL TIMES REPORT

SCOTTISH TOURISM

May 21 1990

Scotland offers a combination of history, superb scenery, and outdoor activities which should attract tourists in droves. A big investment programme is under way, mainly by the private sector – yet the tourism market remains static, writes **James Buxton**

Investors wake up to Scotland

THE SCOTTISH tourist industry is enjoying an unprecedented upsurge of investment. In many parts of the country projects are going ahead to create new hotels and leisure complexes, golf courses and heritage centres. It is a rare hotel in the Lowlands that does not hum daily with conference business, and many is the whisky distillery in the Highlands which now shepherds visitors past its stills.

At the last count by the Scottish Tourist Board, investment projects in tourism worth about £200m were underway. On top of that there were another £100m worth of "fairly firm" future schemes and another £400m worth of "possible and longer term" proposals – a total of about £700m, excluding projects worth less than £500,000 each.

A roundup of the projects involving golf courses produced a total of 61 new courses on 39 locations, of which six schemes are under construction.

Although the Scottish Tourist Board (STB), the Highlands & Islands Development Board (HIDB) and the Scottish Development Agency (SDA) offer grants and other assistance for tourism projects, more than half of the £200m of schemes in progress are funded by the private sector without any government aid.

"International investors have suddenly woken up to Scotland," says Mr Tom Band, the STB's chief executive. "The new projects are generated by a belief that the market can sustain them."

Even if, as is likely, some of these proposals are postponed or cancelled because of the current high interest rates or because they are seen to duplicate rival schemes, enough is going on to lift the Scottish tourist industry to a higher level of quality.

In terms of quantity, tourism can already claim to be Scotland's largest single industry – its earnings of about £1.6bn in 1988 contributed 5 per cent of the Scottish gross domestic product and employed 180,000 people. Scotland can also claim a balance of payments surplus of about £450m in tourism, while Britain in general is in deficit.

Yet the sudden growth of new tourist and leisure schemes – only two years ago the tourism authorities were sighing for more investment and more imagination in Scottish tourism – is based on what is currently a static market. The number of trips and bednights spent by both overseas and UK visitors fell by 11 per cent between 1984 and 1988 (the last year for which full figures are available), although the number of bednights spent by overseas tourists was up by 4 per cent.

The statistics also suggest that tourism spending increased only marginally in real terms over the 1985-88 period, and actually fell from 1987 to 1988. Hotel occupancy in 1989 (a year with an outstandingly sunny summer in Scotland but for which few statistics are yet available) increased by only 2 per cent.

Much of the decline in tourist numbers is due to the fact that over the past two decades British people, and Scots in particular, now take their main annual holiday abroad rather than in Britain. Instead, Scotland has increasingly come to be perceived as a high quality destination for second holidays and weekend breaks, while it maintains a strong appeal to overseas visitors, led by those from the US who are also proportionately the biggest spenders.

Scotland has always had much to attract visitors – beautiful and wild scenery, strong historic associations, its role as the birthplace of golf, the chance to shoot red deer and grouse and to catch salmon.

The upgrading and modest expansion of Scotland's tourism and leisure facilities means, for example, that in Edinburgh the grey old North British Hotel (now owned by Queen's Moat) is being refurbished at the cost of more than £20m to become a five star hotel.

On the shores of Loch Lomond a hotel, time-share and leisure complex is being built by Craigendarroch, which successfully pioneered this type of project in Aberdeenshire. At St Andrews, the cradle of golf, the Old Course Hotel has been expensively renovated by Japanese investors. Other Japanese owners have taken over the Turnberry Hotel on the Ayrshire coast.

The city of Glasgow, once synonymous with industrial dereliction, is demonstrating that a post-industrial city can make a living from visitors and its arts facilities.

Highland cattle contemplate the far horizon. For many months of the year, say those in the tourist industry, visitors stay away and Scotland's scenery is left to such as these to appreciate

In the Highlands and other rural areas, the traditional country hotels may now offer a luxurious table, while landowners are finding their fishing, stalking and grouse moors command ever higher prices.

However, the picture is not uniformly cheerful. There are plenty of opportunities that are *not* being taken: it remains to be seen whether Edinburgh implements the cardinal points of the plan drawn up by a consortium of agencies last year to make the city more appealing for visitors, while Stirling, with its magnificent castle on a rock in the heart of the populous central belt, so far represents an opportunity missed.

As Dr John Heeley of the Scottish Hotel School wrote recently: "There are numerous operational aspects which require further improvement: dirty toilets, inadequate signposting, antiquated opening times, lack of direct air links (although now transatlantic flights may use Glasgow, this will improve), "underwhelming" visitor attractions, a poorly funded overseas promotional effort (by the STB), unattractive conditions of pay and employment – to name but a few."

Scotland's improvements are being parallelled by other tourist countries. Mr Band of the STB points out that Spain, the most popular destination for British tourists, is attempting to move upmarket, and, he says, "east Europe could in due course provide a lot of the things that Scotland provides, with the added excitement of being somewhere new." He warns against Scotland becoming complacent.

Others caution against the mindless creation of "me-too" projects in the field of golf and time-share facilities, and conservationists believe that many golf course projects are really stalking horses for housing schemes.

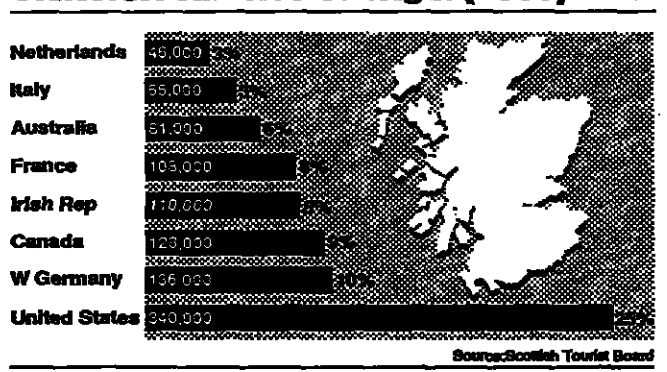
Scotland's tourist industry faces several formidable disadvantages. The first is undoubtedly the weather, listed by more than a quarter of all visitors as their principal dislike. In the Highlands part of the HIDB's assistance programme focuses on visitor attractions suitable for wet days.

Another problem is that Scotland does not have the population to support very large visitor attractions. "There's not a sufficient day trip home market," says Dr Gordon Adams, director of development and investment at the STB who points out that there are very few attractions in Scotland that succeed in bringing in more than 100,000 visitors a year.

Finally, there is the question of attitudes to tourism. Although Scotland is more conscious of the importance of tourism to its economy than many parts of England, and Scots have an image of being a friendly and hospitable people, they do not always provide good or helpful service in hotels and restaurants: "We all know that Glasgow's miles better, but I question whether Glaswegians smile better," quipped Dr Jonathan Rounce of Arlington Waterside, a tourism development company, at a tourism conference last year.

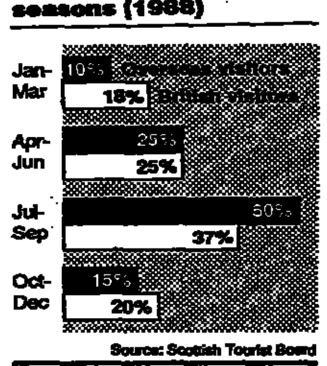
One of the actions of the Scottish Office's recently created co-ordinating group on tourism, which brings together the STB, British Tourist Authority, SDA and HIDB under the chairmanship of Lord Sanderson, a Scottish Office minister, has been to commission the drawing up of a scheme to improve the training of the Scottish labour force for work in tourism. Its proposals are due to be revealed soon.

Visitors:countries of origin (1988)



Source:Scottish Tourist Board

Relative popularity of seasons (1988)



Source: Scottish Tourist Board

GLASGOW FOCUS

A cultural surprise

TWENTY YEARS ago, Mr Eddie Friel's job would have seemed as relevant as an ice cream seller at the south pole, and the Greater Glasgow Tourist Board, which he has headed since its formation in 1983, would have been a music hall joke.

Perceptions are changing, but when Glasgow was selected as Europe's City of Culture for 1990 – in competition with, among other places, Edinburgh – there was still amusement and disbelief among those unable to associate Glasgow with anything other than grimy tenements, derelict shipyards and violence-ridden streets.

By contrast, Mr Roger Carter, who takes over the job of selling Edinburgh next month, need convince nobody that the capital is a lovely place, or tell anyone it has an annual cultural festival.

Edinburgh's tourism business still dwarfs Glasgow's – it takes 60 per cent of Scotland's overseas visitors – but the capital assumed for decades that tourists would just keep coming. Now it is running to catch up with its ancient rival's aggressive activity in the tourist market.

Glasgow started its rehabilitation in the 1970s, with a drive to rejuvenate its east end and scrape decades of soot off some of the finest Victorian buildings in the UK.

Edinburgh is following suit, beginning to clean up its city centre and has even hired a stage designer to devise a lighting plan to show off the city to advantage at night.

When Mr Friel took up his post, Glasgow did not appear in any brochure overseas; summer occupancy rates in hotels and guest houses was 34.5 per cent; and the theatres closed in the summer.

The city's profile had, however, been boosted by the new gallery housing the Burrell collection, the art collection of a shipping magnate, adding to the remarkable Victorian Art Gallery and Museum at Kelvinside. Glasgow was the home of Scottish Opera, the Scottish National Orchestra, Scottish Ballet, and the Citizen's Theatre. "It was the best-kept secret in the globe," says Mr Friel.

He started advertising Glasgow's festival which lasts 52 weeks a year and was "better than London - access was easy and you didn't need a second mortgage to pay for a ticket." Five festival companies were formed to reflect traditions once strong in Glasgow but lost over the years – jazz, folk and choral music, dance and the eclectic Mayfest. Theatres stayed open, and hotel and guest house occupancy rates rose.

Mr Friel says Glasgow is in a better position to attract investment now that it is positioned in the market as a European cultural destination.

Flagship events – the 1988 garden festival and the European City of Culture – have been used to keep Glasgow in the national and international eye. The Glasgow Garden Festival was also seen as important in proving to potential investors that paid-for attractions could work in a city which had taken free attractions for granted. An exhibition called "Glasgow's Glasgow" - as brash and noisy as the city itself – hopes to become a permanent feature.

Like Dr Des Bonnar, Edinburgh and Lothians director of the SDA, Mr Friel insists the two cities are not in competition. "Anyone who comes to Scotland and doesn't go to Edinburgh is missing out on an essential part of the Scottish experience," he says.

The structure for promoting the two cities is the same. The Greater Glasgow Tourist Board is a company limited by guarantee, owned by member companies and some local authorities. Its parallel vehicle is Edinburgh Marketing.

Dr Bonnar concedes that Edinburgh has never taken tourism seriously, partly because it seemed to be self-perpetuating and partly because at its peak – in the three weeks of the festival – it can seize up the city's traffic and be a nuisance.

The Edinburgh Tourism Review, completed last year, approached tourism as a business. It found the city was falling behind competitors – such as York, Bath and Chester – in market share and quality of product. The length of stay was shortening and more competition was on the way – the new Eurodisney development will be two air hours away.

The warning shot helped the SDA put together the Edinburgh Tourist Initiative. The Scottish Tourist Board has pitched in with a £250,000 contribution.

The parties set up Edinburgh Marketing – the district council providing most of the £1.5m a year funding – with the involvement of local tourist sector businesses.

The company is in its early days, but is preparing to tackle one of the most famous and least used tourist assets in the UK – the Royal Mile of buildings from late medieval to Victorian linking the Castle and the Palace of Holyroodhouse.

The street, which has seen many of the great dramas of Scottish history, is now regularly jammed with tourist coaches, and lacks clear information about its main features. Such is its lack of presentation that 60 per cent of visitors never get beyond the castle.

Dr Bonnar says the plan is to manage the Royal Mile so that people experience it properly – it will not be sanitised as a pedestrian precinct, but tourists should be able to see it on foot and with proper interpretation.

The city will be marketed to tourism intermediaries, such as coach tour companies.

Edinburgh Marketing recognises that the use of tourism stock – such as hotel occupancy rates – outside the three peak summer months has to become more efficient if new investment is to be attracted. This means spreading attractions through the year. A start has been made with the new Science Festival every May.

Tom Lynch

VOLUME AND VALUE OF TOURISM IN SCOTLAND

	1985 (m)	1986 (m)	1987 (m)	1988 (m)*
Domestic tourism				
Trips	12.6	11.9	13.4	11.0
Bednights	57.1	55.6	58.1	52.7
Expenditure (£)	1,117	1,224	1,521	1,211
Overseas tourism				
Trips	1.3	1.3	1.4	1.5
Bednights	13.7	12.8	13.4	14.0
Expenditure (£)	319	360	373	410
Total				
Trips	13.9	13.2	14.8	12.5
Bednights	70.8	68.4	71.5	66.7
Expenditure (£)	1,436	1,584	1,894	1,621
Share of total tourism spending	12.4%	13.3%	15.7%	12.8%

*Provisional estimates

Source: Scottish Tourist Board

BUSINESS

City and country venues compete for conferences

THE TOURIST industry all over the world woke up long ago to the fact that business tourism was profitable – Mr Eddie Friel, director of the Greater Glasgow Tourist Board, reckons business tourists spend three times as much per head as leisure tourists.

Also, business tourists can include decision makers, who can be wooed towards siting a factory in the area, so investment-hungry countries are keen to attract conferences, make the delegates comfortable, give them the meeting place, offices, and telecommunications they need, and kindle a desire to return.

Glasgow and Aberdeen have modern, purpose-built conference centres, and another is to be built in Edinburgh, which already has a large exhibition venue at Ingliston.

There are also small conference centres ranging from the discreet, often remote hotel catering for small numbers, to the hotels and halls hoping to bring in the small- to medium-sized conference.

The international conference market is fierce, and the Scottish Development Agency, which is leading efforts to build Edinburgh's conference centre, has learned one lesson from its earlier venture with the Scottish Exhibition and Conference Centre in Glasgow: An operating company is being put together to sell conferences before the building exists, and to ensure that the technology installed is in tune with clients' needs.

Dr Des Bonnar, SDA director for Edinburgh and Lothians, says conference centres do not make money – they are loss leaders, which spin off benefits into the local economy. Edinburgh's £25m conference centre, now going through the planning process, should be completed in 1993. It will be able to take 1,200 delegates subdivided into conferences of 600, 300 and 300 with acoustic separation achieved by revolving two sections of the main auditorium.

The leader in the Scottish conference market is the £36m Scottish Exhibition and Conference Centre, built on profoundly derelict land in Glasgow's docklands and opened in 1985. Its 19,000 sq m in five interlinked halls have brought £56m in convention business in less than three years.

However, the centre has also brought accumulated losses of £5m, and is not expected to return to profit before 1993. This has brought some political flak, although the centre's defenders argue that other large exhibition and conference venues took a decade or more to become profitable.

Mr Alan Brazwell, the SDA's head of tourism, is unrepentant about the SDA's leading role in the SECC. It has brought substantial economic benefit to Glasgow, he insists, from land which some might have written off as unusable.

The Aberdeen Exhibition and Conference Centre has also had a slow start. Mr Clarke Milloy, managing director, is pressing for more staff from his public sector masters, and is keen to give the impression of a man fighting with one hand tied behind his back.

He has only two sales staff for his 10,500 sq m of space, he says, claiming the SECC has 20 selling its floorspace.

Like SECC, the centre is a flexible space, which lives on a diet of local sports clubs, craft exhibitions, trade shows and pop concerts, as well as headline conferences, such as the political parties which are beginning to make bookings – the Scottish Conservatives are there this month.

The site is being further developed with the addition of a hotel – the regional council will build the shell and let it on long lease to the operating company, which will fit it out.

At the smaller end of the market, companies and hotels are looking for a share of the action, and finding out that it is not a cheap option – just the computer costs can impose a five-figure entry fee.

The average number of delegates at conferences in Scotland is quite small, and the Scottish tourist board is helping to market the small venues, of which the country has a good supply, for small conferences - such as in a castle or country house.

Tom Lynch

HERITAGE

Small country, great legends

THE BIGGEST single tourist attraction in Scotland is Edinburgh Castle, which topped 1m visitors last year. All over Scotland, tourists visit castles – ruined and preserved – battlefields and palaces.

Many far-flung English speakers claim Scottish descent – thousands even don "Highland" dress and hold clan gatherings in their own countries.

For such a small country, legends have grown up around a remarkable number of characters. Mary Queen of Scots is the second most written about woman in history; everyone knows that Robert the Bruce chatted with a spider before going off to defeat the English; and there is continuing fascination with the French-Polish upstart Charles Edward Stuart – "Bonnie Prince Charlie" – who led thousands of Highlanders to the slaughter of Culloden in 1746.

Other tourists come to remember gentler souls, like poet Robert Burns, author Sir Walter Scott, economist Adam Smith, and the engineers and scientists who invented a disproportionate share of the machines which powered the industrial revolution.

The principal guardians of the country's ancient heritage stock are Historic Buildings and Monuments – the state sector body – and the National Trust for Scotland.

Nearly 2m people visited the Trust's 50 paid-for attractions in 1989, while HBM had 2.45m paying visitors to the 330 attractions in its direct care. Both organisations fund repair of historic buildings in private hads.

Both have done much in recent years to make those ancient glories more accessible – those in state care in particular tended to be forbidding, with little interpretation, and guidebooks seemingly written for the committed scholar.

HBM's primary responsibility is to conserve those monuments for the future, says Ms Jenny Hess, head of public relations for for HBM. "We work in a much more commercial way than we used to but that is secondary to conserving and looking after what's in our care."

The guidebooks are more attractive and the interpretation is brighter, though the entrance to many sites could be more welcoming.

The more commercial approach has included attracting sponsors and hiring out buildings – thus corporate dinners can be held in the glory of Stirling Castle, and the old castles and palaces form a backdrop to many advertisements and film scenes.

HBM has developed a travel trade section and developed an "explorer" ticket – overseas visitors, can buy a ticket for all HBM and NTS attractions.

HBM's properties range from such as its 5,000-year-old sites in Orkney – the village of Skara Brae and the magnificent chambered cairns of Maeshowe – to industrial archaeology.

Its biggest project is a £6m plan to improve access to and the organisation and interpretation of Edinburgh Castle. Its newest is the Dallas Dhu distillery – the last built in the 19th century. Mothballed in 1983 in the downturn in the industry, it is now a museum – giving HBM the opportunity to develop its own vatted malt whisky, The Historic Scotland.

Industrial archaeology projects are attracting more interest, and this has been taken a step further with the use of heritage as a vehicle of urban regeneration.

Perhaps the most striking example is in Dundee, where the Discovery, the first vessel built in Britain for scientific research and which carried Scott and Shackleton on their 1901-1904 Antarctic expedition, is the centrepiece of a waterfront project combining a £5m heritage centre, cinemas, a nightclub, sports facilities and a hotel on land once hopelessly derelict.

Faced with Dundee's decline in the late 1970s, the local authorities, the Scottish Development Agency and the private sector formed the Dundee Project to revitalise the economy.

The moving of the Discovery from London to the city where she was built has proved a focus for renewing the city's spirit – the whole renewal package has been sold under the "City of Discovery" badge.

Dundee's tourist industry is tiny. Business visitors keep hotel occupancy high on weeknights, so the Discovery and other attractions are seen as a draw for weekend tourists. The Discovery will move to her new berth next year, and the heritage centre will open in 1992.

A gentle memory: the Robert Burns monument in Dumfries

The whole development will have cost £50m – £7m from the public purse and £43m from private industry, mainly the "superstore" and DIY warehouse which have taken up the south end of the site. The heritage centre is jointly financed by the Scottish Development Agency, the Glasgow-based GA Group and National leasing and finance.

The next possible project is a textile heritage centre to reflect the city's pre-eminence in the manufacture of jute which, among other things, covered the wagon trains that opened the American West.

To entice tourists further up the east coast, a group of Aberdeen businesspeople have floated a plan for an Oil Experience. The council is holding some land on the city's seafront for the £20m project which, the organisers openly admit, will only be economic if the oil companies sponsor it – Aberdeen cannot hope to get enough visitors to make a £20m development profitable.

Many Scots are sensitive about the potential for "Disneyfication" of Scotland. Dr Gordon Adams, the STB's director of investment and planning, insists that a Disneyland would not be appropriate.

"You can have a tremendous story building on what is there already. Sites already existing just need to be developed to quite a minor extent. Often those attractions will be and must be on a heritage theme."

There are problems – the interpretation of some periods in Scottish history, such as the Highland Clearances, is the subject of fierce debate. It is difficult to present the truth of a story if that story is still embroiled in controversy.

There have been temptations towards going over the top – Stirling Castle deserves more than its 200,000 visitors a year, and suggestions have included a funicular railway up the castle rock.

On a smaller scale, there has been a mushrooming of small private sector visitor attractions which could be loosely defined as "heritage." The whisky industry is a popular draw – many distilleries have visitor centres and the industry has a £2m heritage centre in Edinburgh – and other industries have followed suit.

Tom Lynch

Tom Lynch looks at the idea of golf as a tourist attraction

The land of 400 courses

SCOTLAND gave the world the game of golf centuries ago, but has only recently woken up to the fact that golf is an asset it can also sell.

By the early 17th century, the Scots had realised that the low-lying sandy terrain along their coasts was ideal for "gowf." So popular did golf become that it was made illegal for a while because it so distracted devotees.

The country has more than 400 golf courses, from the great Open championship venues of St Andrews, Muirfield and Turnberry to the nine-hole courses run by committees of enthusiasts in villages where green fees are collected in "honesty boxes" and greens are fenced off from the cattle and sheep which substitute for motor mowers.

The world's first golf club was formed in Edinburgh, and 216 years ago a group of nobles and gentry founded the body now known as the Royal and Ancient Golf Club, sited in the seaside university town of St Andrews from where – jointly with the US Golfing Association – it controls world golf.

The idea that golf should be sold as a tourist attraction was a long time taking root. Many of the best courses are public, often owned by local councils and a facility for local people need not go looking for outside business.

There was no need to court tourists to the great courses – only 145,000 rounds of golf a year are available on the Old Course at St Andrews, and demand is such that no marketing is needed.

Dr Gordon Adams, director of investment and planning for the Scottish Tourist Board, acknowledges that golf as a tourist attraction was not always well presented. Many courses are too short, and do not have the facilities tourists need – club hire, car parking, changing rooms and diversions for non-golfing companions.

It is hardly surprising that the selling of golf has been led by those hotels which own their own courses – Turnberry in Ayrshire, where the Open was last staged in 1986 and will be again in 1994, and Gleneagles, in Perthshire.

Both were owned by British Transport Hotels until the early 1980s, and are now five-star hotels offering full facilities for golfers and diversions for the rest.

Nor is it surprising that Japanese investors have seen the potential of Scottish golf. In 1987, Nitto Kogyo, a Japanese family-owned company, bought Turnberry from Sea Containers; and Seiyo Corp, a member of the Saison Group, has a stake in the Old Course hotel at St Andrews, which reopened this month after a £15m redevelopment.

Mr Peter Crome, general manager of the Old Course Hotel, does not have a golf course as part of the property – the best he can do for those wishing to play the Old Course, probably the most famous in the world, is to enter their names in the daily ballot for tee times.

But with three other courses in St Andrews, 30 in the county of Fife, and top-class links courses such as Carnoustie just over the border in Angus, Mr Crome is positive about the hotel's ability to offer as much golf as anyone wants to play.

He believes the infamous seasonality of the Scottish tourist trade can be ironed out by appealing to the incentives, conference and weekend breaks markets. The leisure centre, which has become essential at the top of the market, is complemented by the biggest golf shop in town and a health club offering, among other things, a vast range of massage techniques.

His visitor profile is 55 per cent American, 35 per cent British, and he believes more UK trade is available, particularly in the quieter months.

Turnberry and Gleneagles also offer the full range of upmarket diversions. Turnberry's advantage is that it has two championship courses.

Mr Chris Rouse, Turnberry's general manager, said his hotel had just completed an £8m refurbishment over five winters, aiming to give it a country house feel, and was about to embark on a £6m development of a new leisure club.

One visitor profile is 55 per cent American, 35 per cent British

Impressive though recent investment around golf courses has been, it is dwarfed by promises of future investment, with 50 or more new proposals.

Some proposals are well down the road – Leading Leisure starts work soon on a £7m hotel in Carnoustie and THF has plans for a £13m hotel there – developments which may restore Carnoustie's golf course to the Open circuit after a gap of about 20 years.

Some plans for new courses are unlikely to proceed, and there have been protests from conservationists that some are simply sops offered by developers wanting to build lots of houses in sensitive areas.

Those concerned with tourism are relaxed about the number of schemes proposed - presented variously in Scotland as a £1bn bonanza and a bubble bound to burst. There is a strong feeling in the Scottish Development Agency and the STB that many plans will not come off and that the market will sort out how many of the courses are ever built.

There is some scepticism about those that claim to be championship courses – the championship network in Scotland is thought unlikely to expand because other European countries are investing in golf and want their share of the big events.

The STB's strategy is to assist golf clubs to provide car parks and club houses, and encourage tourists to explore what one official called the "hidden gems" of Scottish golf – magnificent, little-known courses like Edzell, Monifieth, Crieff, Portpatrick and Macrahanish. Dornoch, in Easter Ross, was a "hidden gem" once, but has been discovered by thousands and claims to be Tom Watson's favourite.

Those who run small clubs are being encouraged to consider that a large proportion of their green fees – two-thirds in some cases – come from visitors, so that local people are having their golf subsidised and ought to do more for visitors.

The STB has also put £300,000 towards the £1.8m golf museum opening in St Andrews next month.

A golfer at Rothesay, one of Scotland's many excellent courses

James Buxton on hotel development

A flourishing industry

AN eighteenth-century mansion near Glenrothes in Fife which recently became a hotel may have some important lessons for Scotland's hotel industry.

Balbirnie House, for nearly two centuries the property of the Balfour family and then somewhat incongruously the headquarters of Fife regional council, is now a Grade-A hotel with 30 bedrooms. There are conference facilities for up to 120 people as well as smaller meeting rooms, and the hotel can provide a banquet for around 200 people. It is set in a 400 acre publicly-owned park with a golf course close to the house.

Balbirnie, which opened about six months ago, is the project of Mr Eric Brown, an experienced hotel manager and past lecturer on hotel management who, with partners, has invested about £2m. What is significant about it are its size, its location and the markets in which it is operating.

Bigger than the average country hotel (which usually has about half its number of rooms), it is within an hour's drive of Edinburgh, Perth, Dundee and St Andrews, a prosperous and, by Scottish standards, well-populated area. It is close to tourist attractions such as Falkland Palace, to golf courses (St Andrews) and to industrial centres (Glenrothes is a centre of electronics and other hi-tech industries). Balbirnie can thus appeal to – and accommodate – people from the corporate sector (for conferences and entertainment), the leisure market (such as weekend visitors), and the tourist sector (the hotel is being marketed in the US tourist and golf markets), while still remaining relatively intimate in scale.

AVERAGE LENGTH OF STAY AND DURATION	Domestic tourists (1988)	Overseas tourists (1987)
Average length of stay (nights)	4.8	9.8
Average expenditure per trip	£110	£273
Average expenditure per night	£23	£28

Source: Scottish Tourist Board

"I travelled the length and breadth of Scotland before I found a suitable property in the right location," says Mr Brown.

He believes it is easier for a private company to create this kind of venue than a large hotel company. "A big company usually needs more rooms to support its overheads and marketing effort, but that may defeat the purpose: the business user wants something more personal."

Across Scotland, roughly half the £700m of known tourism projects – some of them under way, some fairly firm and others long-term possibilities – are in the hotel and accommodation sector. But as other articles in this survey show, the definition of a hotel can encompass leisure centres, conferences and golf courses, or a combination of all three.

Scotland provides more conventional hotels in the main cities. Expansion and upgrading is under way at many hotels in Edinburgh and Glasgow, while elsewhere in the south redevelopment projects include the Old Course Hotel at St Andrews.

Such is the scale of upgrading works that concern has been expressed that there could be a surplus of top quality accommodation and a shortage of three-star hotels in the city. Many schemes are going ahead or are being considered following a year – 1989 – during which, in spite of unusually good weather, hotel occupancy in Scotland went up by only two per cent.

In the Highlands and Islands in 1988, hotel occupancy between April and October was only 56 per cent – a rise of just 1 per cent from the previous year. Both the Scottish Tourist Board and the Highlands & Islands Development Board now want to use their financial resources to improve the quality of Scotland's existing hotels rather than to increase the country's hotel room capacity.

Mr Ian Grant, the new STB chairman, said recently that the board's priorities in the hotel sector were to help leisure projects and "upgrading existing accommodation and the provision of en suite bathrooms." It has given £4.5m in grants to projects worth £29m over the past three years. Years of exhortation by Mr Grant's outspoken predecessor, Mr Alan Devereux, combined with the STB's grading scheme for hotels and guest houses, have gradually pushed up the average quality of hotels in Scotland, especially country hotels.

But not every rural hotel needs to be luxurious. The idea of buying or creating a country hotel, particularly in the Highlands, appeals to many people, but Mr Robin Lingard, who is responsible for tourism at the HIDB, urges a strong dose of caution. "There's such a thing as the curse of the Highlands," he says. "People come up from the south, see a hotel in the summer, think it will be fun to run and buy it."

However, the weather, the short tourist season and the lonely winters may not be kind to them; they may lose money and discover they don't enjoy the business after all. This shows in the very rapid changes of ownership of many Highland hotels. Experience shows that many small hotels only make money if the owners do almost all the work themselves, including the cooking. "A good family-run hotel can be an outstanding success," says Mr Lingard. "But it's hard work and not many people enjoy it."

To help, the HIDB offers a business training programme and recommends hoteliers to link their hotels to other activities, and try to generate out-of-season business. Mr Brown of Balbirnie House says: "For many people, running this type of hotel is a way of life rather than a business. They don't really contemplate making a commercial return on capital, but they make their money out of the capital appreciation when they sell. They tend to overcapitalise and under-trade."

LEISURE DEVELOPMENTS

Millions of pounds flood in

THE LAST three years have seen the transformation of the sleepy village of Ballater in Aberdeenshire, and the company that turned a down-at-heel hotel at the western edge of the village into a leisure complex is also ensuring that Loch Lomondside will never be the same again.

Craigendarroch Group, a subsidiary of Cannon Street Investments, put £13m into extending the Craigendarroch Hotel, upgrading it to a four-star, and adding a conference area, a leisure complex, timeshare lodges and a dry ski slope.

Ballater always did have some tourist trade. There is a continuing public curiosity about the Royal Deeside image created by or for Queen Victoria – if you don't blink, you can glimpse Balmoral Castle from the road not far from Ballater – and there is skiing in the nearby hills most winters.

In the early 1980s, Aberdeen-based Kildonan Investments, which sold itself to Cannon Street Investments in 1987, decided Ballater had other virtues. Mr Chris Gordon, Craigendarroch's sales and marketing director, said there was a "quality desert" on Deeside.

Kildonan's research showed that Deeside had top-of-the-market visitors, but there was not even a three-star hotel for 30 miles and no luxury self-catering. There was a fair-sized local population, with Aberdeen about 50 miles away, and good access via Aberdeen Airport for the rest of the UK.

Craigendarroch was, he admits, a high-risk venture, but with timeshare sales proving relatively recession-proof and the occupancy rates of the hotel exceeding all reasonable expectations, the company contributed £1.42m net pre-tax to group profits last year.

The next venture is at Cameron House on Loch Lomondside, on the site of an old theme park, with a slightly bigger hotel, a few more lodges and a 9-hole golf course instead of a dry ski slope. Kildonan has commited £19m – again in a "quality desert." Glasgow's bigger catchment area is an advantage, as is the fact that Glasgow Airport, newly free to receive transatlantic flights, is only 20 minutes' drive away.

The conventional wisdom in Scottish tourism appears to be that projects needing large capital spending will always be built in Glasgow or Edinburgh, because only there can the developer hope to attract the million visitors a year that make a big investment worthwhile.

That wisdom appears to hold good in almost all cases, but the upmarket leisure centres pioneered by Craigendarroch may be the exception.

Mr Gordon sees such places as answering the growing demand for second holidays in the UK from people with money to spend and interested in health, heritage and the quality of the environment.

The centres cater for those whose plans can be disrupted by unpredictable weather

They also cater for those whose leisure plans can be disrupted by unpredictable weather – the lack of snow for skiers in the last couple of winters proves that bad weather in Scotland can no more be relied upon than good.

On a larger scale is the holiday complex established in the 1960s at Aviemore, in the central Highlands. The complex is now showing its age, and the Stakis Group, which owns it, expects soon to announce plans to redevelop it.

Stakis says the redevelopment is intended to make the centre more in tune with the village.

The addition of a wide range of leisure facilities has been proven as a valuable way of extending the season at the top of the market. The Gleneagles Hotel, which has pioneered the development of upmarket leisure facilities in the hotel sector, was closed for six months every year in the days when it was just a posh railway hotel. It now has a 52-week season.

Tom Lynch

WORLD STOCK MARKETS

CANADA

TORONTO

	May 18	May 17	May 16	May 15	1990 HIGH	1990 LOW
Metals & Minerals	3053.40	3064.80	3058.60	3075.40	3453.05 (4/1)	2850.80 (23/4)
Composite	3521.30	3509.50	3486.80	3505.40	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1816.38	1811.67	1797.94	1807.36	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday May 18 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Mining	18.7m	1,030	-40	NKK	5.9m	634	-13
Honshu Paper	11.7m	2,580	+220	Ebara	5.9m	2,000	-30
Kurabo Inds	11.7m	1,040	+30	Sanyo Electric	5.6m	933	+1
Furukawa Elec	11.6m	950	+29	Hitachi	5.5m	1,800	0
Nippon Steel	7.4m	615	-2	Isuzu Motors	5.4m	1,100	-10

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AUTHORISED UNIT TRUSTS

Midland Unit Trusts Ltd (1200)F
192 Eyre Street, Sheffield, S1 3RD 0742 529888

British Tst	6	60.35	60.77	64.99	3.45	46479
(Accum Units)	6	62.76	63.19	67.58	3.45	46480
Capital	6	106.5	106.5	113.9	2.54	40961
(Accum Units)	6	155.2	155.2	166.0	2.54	40962
European Growth	6	165.4	165.4xd	176.2	0.66	40965
(Accum Units)	6	204.0	204.0	217.3	0.66	40966
Extra High Inc	6	63.22	64.52	69.01	7.64	40967
(Accum Units)	6	90.47	92.35	98.77	7.64	40968
Gilt & Fxd Int	4	46.71	46.71	48.75	10.25	40969
(Accum Units)	4	99.51	99.51	103.8	10.25	40970
High Yield	6	190.0	193.2xd	206.6	5.93	40971
(Accum Units)	6	385.2	391.8	419.0	5.93	40972
Income	6	232.7	235.7	252.1	4.87	40973
(Accum Units)	6	428.6	434.1	464.3	4.87	40974

Phillips & Drew Unit Managers Ltd (1400)F
14 Finsbury Square, London EC2A 1PD 071-628 6070

Charities Fxd Int May 16	¼	87.90	87.90	88.25	10.9	46939
Charities Inl Ltd May 16	¼	97.02	97.02	97.47	2.6	46941
UK Exempt May 17	¼	101.7	101.7	104.0	5.6	46944
Charities Inl May 18	¼	122.3	122.3	124.1	2.6	46940

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	97.69	97.69	100.53	1.17	42679
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing - 12 Noon Historic						
TR American Gwth	5¼	48	48	51.2	0	41525
TR Eur Sp Sits Acc	5¼	46.61	46.61	49.53	0	41526
TR Eur Sp Sits Inc	5¼	45.70	45.7	48.57	0	41527
TR Far East Opps Inc	5¼	23.34	23.5	25	–	41660
TR Far East Opps Acc	5¼	23.34	23.5	25	–	41685
TR General Growth	5¼	74.51	74.51	79.26	2.58	41528
TR Global Tech	5¼	75.99	75.99xd	81.05	0	41529
TR Income Growth	5¼	85.4	85.4	90.85	4.40	41530
TR Income Monthly	5¼	50.77	50.77	54.01	7.52	41531
TR Japan Growth	5¼	84.53	84.53	89.75	0	41532
TR Overseas Growth	5¼	67.87	67.87xd	72.31	0	41533
TR Smaller Cos	5¼	73.23	73.23	77.9	2.47	41534
TR Special Ops	5¼	83.21	83.21	88.52	3.4	41535
TR Mgd Eq Fun Acc	5¼	35.23	35.23	37.47	2.64	41536
TR Mgd Eq Fun Inc	5¼	33.04	33.04	35.14	2.64	41537
TR Wwde Sp Sit Acc	5¼	38.47	38.47	40.97	0	41538
TR Wwde Sp Sit Inc	5¼	38.43	38.43	40.93	0	41539
TR Pension Portfolio						
TR American Gwth ‡	6	29.08	29.08	30.85	0	46977
TR Eur Sp Sits ‡	6	37.03	37.4	39.64	0	46978
TR General Growth ‡	6	24.78	25.04	26.54	0	46979
TR Global Tech ‡	6	29.87	30.27	32.09	0	46980
TR Income Growth ‡	6	24.96	25.22	26.74	0	46981
TR Japan Growth ‡	6	26.42	26.66	28.26	0	46982
TR Mgd Equity ‡	6	27.05	27.33	28.97	0	46983
TR Overseas Growth ‡	6	29.1	29.46	31.23	0	46984
TR Smaller Cos ‡	6	17.29	17.47	18.52	0	46985
TR Special Ops ‡	6	17.13	17.31	18.35	0	46987
TR Stg Liquidity ‡	6	26.04	26.3	27.6	0	46986
TR Wwde Sp Sits ‡	6	31.24	31.64	33.54	0	46988
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 081-686 4355						
TUUT	5	243.9	249.5	262.6	3.29	41540
Tritton Fd Mngrs. Ltd. (1000)H						
Royal Lde. Hse. Colchester CO1 1RA 0206 764400						

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	Yield Gross	City-line
Norwich Union Asset Management Ltd				
PO Box 124, Norwich NR1 1JS 0603 683986				
NUAM Funds				
Managed Fund	66.0	69.5	–	43191
Stock Market Mngd Fund	64.8	68.2	–	43192
Equity Fund	68.7	72.3	–	43193
International Fund	62.7	66.0	–	43194
European Fund	75.9	79.9	–	43195
North American Fund	60.5	63.7	–	43196
Pacific Fund	64.9	68.3	–	43197
Property Fund	87.1	91.7	–	43198
Fixed Interest Fund	50.0	52.6	–	43199
Index linked Sec Fund	57.8	60.9	–	43200
Deposit Fund	62.7	66.0	–	43201
NUAM Retirement Plans				
Mixed Fund	71.2	75.0	–	43202
UK Ordinary Share Fd.	79.2	83.3	–	43203
International Fund	66.5	70.0	–	43204
Property Fund	84.9	89.3	–	43205
Fixed Interest Fund	58.7	61.8	–	43206
Index Linked Sec Fund	60.8	64.0	–	43207
Deposit Fund	71.7	75.5	–	43208
NUAM UMF				
Managed Fund	928.6	977.7	–	43209
Equity Fund	1876.5	1975.3	–	43210
International Fund	165.3	174.0	–	43214
Property Fund	550.5	579.5	–	43211
Fixed Interest Fund	374.2	393.9	–	43212
Index Linked Sec Fund	58.8	61.9	–	43215
Deposit Fund	257.6	271.2	–	43213
Norwich Union Life Insurance Soc.				
Surrey Street, Norwich NR1 3NG 0603 622200				
Unitised Life				
With Profits Fd	101.11	106.44	–	47620
Managed Fd.	91.46	96.27	–	47615
UK Ord Share Fd	91.29	96.10	–	47619
International Fd.	93.03	97.92	–	47613
European Fd	108.57	114.28	–	47611
North American Fd.	92.06	96.91	–	47616
Pacific Fd	82.06	86.38	–	47617
Property Fd.	99.99	105.25	–	47618

	Bid Price	Offer Price	Yield Gross	City-line
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ 0256 470707				
Unit Fund (Mixed)	1038.5	1090.4	–	43476
Equity Fund	239.2	251.2	–	43477
International Fd.	160.9	168.9	–	43478
Fixed Interest Fd	149.5	157.0	–	43479
Property Fund	225.7	237.0	–	43480
Index-Linked Fund	144.9	152.1	–	43481
Deposit Fund	148.9	156.3	–	43482
Pens. Mixed (Ord) Fd.	249.2	261.7	–	43483
Gold Pensions				
Discretionary Fund		121.3	–	46412
Equity Fund		121.7	–	46413
Fixed Interest Fund		108.9	–	46414
International Fund		122.7	–	46415
Property Fund		137.4	–	46416
Index-Linked Fund		121.0	–	46417
Deposit Fund		125.5	–	46418
S & F Consolidation		114.9	–	46419
S & F Balanced		128.0	–	46420
S & F Maximum Growth		104.0	–	46421
Provident Mutual Life Assc. Assn.				
Willian Rd. Hitchin, Herts SG4 0LP 0438 739000				
Managed Ord.	330.8	348.2	–	43484
Managed Init.	258.4	272.0	–	43485
Equity Ord.	466.4	490.9	–	43486
Equity Init.	364.2	383.4	–	43487
Index Linked Gilt Ord.	143.9	151.5	–	43488
Index Linked Gilt Init.	117.3	123.5	–	43489
Overseas Equity Ord.	297.0	312.6	–	43490
Overseas Equity Init.	232.0	244.2	–	43491
Property Ord	220.8	232.4	–	43492
Property Init.	172.4	181.5	–	43493
Fixed Interest Ord.	171.9	180.9	–	43494
Fixed Interest Init.	134.3	141.4	–	43495
Deposit Ord.	156.5	164.7	–	43496
Deposit Init.	122.2	128.6	–	43497
Pension Funds				
Managed Ord.	413.6	435.4	–	43498
Managed Init.	323.0	340.0	–	43499
Equity Ord.	601.8	633.5	–	43500
Equity Init.	470.0	494.7	–	43501

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Lazard Fund Managers –Contd.

Merrill Lynch Int Capital Mngt (GSY) Ltd

NM Financial Mgmt Intl Ltd

The New Zealand Fund

Nikko Capital Mngt (Europe) Ltd

Prudential Intl Financial Services Ltd

Sarasin International (Guernsey) Ltd

Stewardship Fund Mngrs Ltd

The Thai-Euro Fund Ltd

Tyndall International (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Wellington Fd Mngrs (Guernsey) Ltd

Yamaichi Capital Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIG Fund Management Ltd "MI Trusts"

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)H

Asset Global Funds Ltd

CMI Fund Managers (IoM)

Equity & Law Intl Fund Mngrs Ltd

Gartmore Fund Managers (IoM)

Refuge Overseas (1200)

Sun Life Management (IoM) Ltd

ISLE OF MAN (REGULATED)(**)

CAL Investments (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Equity & Law International Fund Mgs Ltd

Gartmore Fund Managers (IoM)

Hill Samuel Investment Services Intl

Hellenic Scandinavian Fund Ltd

IBI Global Funds Limited

Mercury Fund Managers IoM Ltd

Refuge Overseas

Target International (Isle of Man) Ltd

Tyndall International (Isle of Man) Ltd

JERSEY (SIB RECOGNISED)

Barclays International Funds

Capital House Fund Mgrs (CI) Ltd

Gartmore Fund Managers International Ltd

John Govett (Channel Islands) Ltd

John Govett – Contd.

Hill Samuel Fund Mgrs (Jsy) Ltd

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

MIM Britannia International (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd

TSB Trust Funds (CI)

JERSEY (UNCLASSIFIED)(**)

Allied Irish Fund Managers (CI) Ltd

Barclays Intl Funds

Brown Shipley Fund Mgmt (CI) Ltd

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

Daiwa Intl Capital Management (H.K.) Ltd

EBC Trust Company (Jersey) Ltd

Equitilink International Mngt Ltd

Fidelity International (CI) Ltd

Fleming Group

Foreign & Colonial Mngt (Jersey) Ltd

John Govett Management (Jersey) Ltd

Hill Samuel Investment Services (Intl)

Midland Bank Fund Managers (Jersey) Ltd

Morgan Grenfell Jersey Ltd

Murray Johnstone (Jersey) Ltd

Nat. Westminster Jersey Fd. Mgrs. Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Perpetual UT Mngrs (Jersey) Ltd

The Portland Fund Limited

Prudential Intl Financial Services Ltd

Royal Trust Fd Mngt (CI) Ltd

Royal Trust Intl Fd Mgt Ltd

Save & Prosper International

Schroder Mngt Services (Jersey) Ltd

Scimitar Worldwide Money Fund Ltd

Scimitar Worldwide Selection Fd Ltd

TSB Trust Funds (CI)

Target Internat. Management (Jersey) Ltd

Top Brand Fund Intl-SICAV

Tyndall International (Jersey) Ltd

Warburg Asset Management Jersey Ltd

Wardley Fund Managers (Jersey) Ltd

World Bond Fund-SICAV

World Capital Gwth Fd-SICAV

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

AEtna Federated Intl Mgrs (Lux) SA

Barclays Intl Funds (Luxembourg) (1400)

CMI Asset Management (Luxembourg) SA

Commercial Union Luxembourg SA

Dresdnerbank Asset Mngmt SA

Eagle Star Intl-Global Assets Fund

Fidelity Intl (Luxembourg) SA

Fleming Group

Gartmore Luxembourg SA

Ivory & Sime (Luxembourg) SA

Midland International Circuit Fund SICAV

MIM Britannia International Ltd

Morgan Grenfell UT Mgrs/Deutsche Bank

Nomura Global Fund

Royal Trust Assetmix Fund

Sanpaolo Group (Luxembourg)

Schroder International Selection Fund

Sun Life Global Management Ltd

Tyndall Intl Asset Mngmt Ltd

Touche Remnant (Guernsey) Limited

S.G. Warburg Asset Mngt Lux SA

Wardley Investment Services (Lux) SA

LUXEMBOURG (REGULATED)(**)

Abbey Global Investment Fund

Asian Development Equity Fund

BNL-Banque de Marches et d'Arbitrage

Capital International

Comgest

Continental Asia Fund

Credit Suisse

Crosvalls Intl Inv Advisors (Lux) SA

Dean Witter World Wide Invest. Tst SA

Deutsche Bank

DWS Deutsche Ges. F. Wertpapiersparen

Europa Plus Investissement (SICAV)

Europe Value Fund

Fidelity Intl Inv Mngt (Luxembourg) SA

Fiduciary Intl Management Group NV

Five Arrows Intl Bond Fund

Flemings Group

GT Management

Hill Samuel Investment Services Intl SA

Indosuez Asia Invest Services Ltd

Investment Allocations SA

Kleinwort Benson Select Fund

Latin American Management Co Ltd

Lazard Intl Funds-Global P'folio FFP

Liberty ALL-STAR World P'folio-Equity Fd

Lloyds Bank Luxembourg

McKinley Allsopp Risk Arbitrage Fund

Mediterranean Fund (SICAV)

Merrill Lynch Asset Management

MIM Britannia International Ltd

Morgan Stanley Sicav

Nikko Luxembourg S.A.

Nomura Asia Europe Fund

Nomura Dragon Global Fund

Nomura Growth Fund SA

Nomura Prudential Global Portfolio

Paribas Intl Fund

Rosenberg Global Mngt Co SA

Rosenberg Management SA

Rosenberg US Japan Mngmt Co SA

Royal Trust Intl Fd Mgt

SCUTECH SA

Security Pacific Funds S.A. Lux

Templeton Worldwide Investments

Tradewind Bond Trust

UBS Pacific Stock Fund

Unifonds SA, Frankfurt

Uniface Fonds Services SA Lux

Vikin Fund

S.G. Warburg Asset Mngt Lux SA

Yamaichi Dynamic Mngt Co SA

Yamaichi 1992 OMNI Fund SICAV

SWITZERLAND (SIB RECOGNISED)

B.I.A. Bond Investments AG

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Actus Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Bachan Investment Trust Co Ltd

Baring International Group

Bermuda Intl Investment Mgmt Ltd

Birmingham Financial Management

Bridge Singapore Asset Management Ltd

Butterfield Management Co Ltd

Capital Home Investment Trust Mgt

Cassa Currency Hedge Funds

Citizens Investment Trust Mgt Co Ltd

Credit Lyonnais Rouse (Bermuda) Ltd

Daiwa Japanese Equity Warrant Fund

Delta Group

Deutscher Investment-Trust

Dreyfus Intercontinental Inv. Fd

Eiders (Switzerland) Mngt. Ltd

Emerging Markets Management

Europe 1992

Fidelity Distributors Intl Ltd

Fidelity International Ltd

Frankfurter Trust Investment GmbH

French Prestige Fund

Gartmore Fund Mngrs (CI) Ltd

GT Management

Global Government Plus Fund

Green Oak Limited

Hill Samuel Investment Services Intl (x)

Jardine Fleming Unit Trusts Ltd

Korea International Trust

Lloyds Bank Geneva Switzerland

London Portfolio Services plc

McDowell & Co (Bermuda) Ltd

McDowell & Co – Contd.

Magnum Fund Mngmt (Bermuda) Ltd

Malaysia Capital Fund Ltd

Malaysia Growth Fund

Malaysia Select Fund Ltd

Malaysian Smaller Co's Fd (Cayman) Ltd

Meridian Funds

Money Jersey Asset Mgmt Ltd

Morgan Stanley Japanese Warrant Fund NV

Nippon Fund

Nomura International Fund Ltd

Old Mutual Fund Managers (Bermuda) Ltd

PFC International Portfolio Fd Mgt Ltd

Pointer Bond Fund SA

Prospect H I Port N.V.

Quantum Fund NV

Rothschild Asset Mngt (CI) Ltd

Royal Trust North American Bond Fd

Saba Fund Management

Schroder Japanese Warrant Fund

Schroder Asia Limited

The Thailand Fund

The Thailand Trust Fund

Tudor BVI Futures Ltd

Tyndall International (Bermuda) Ltd

Union-Investment-Gesellschaft GmbH

Warburg Inv Mngmt (IoM) Ltd

Wardley Investment Services Ltd

Wells Fargo U.S. IT Fund

Xiphias International Investment Fd Ltd

Money Market Trust Funds

CAF Money Management Co Ltd

The COIF Charities Deposit Account

Gartmore Money Management Ltd

Money Market Bank Accounts

Aitken Hume Bank plc

Allied Trust Bank Ltd

American Express Bank Ltd

Bank of Ireland High Interest Cheque Acc

Bank of Scotland

Barclays Prime Account H.I.C.A.

Barclays Capital Advantage Account

B & C Merchant Bank Plc Portfolio Acc

Brown Shipley & Co Ltd

Caledonian Bank plc

Cater Allen Ltd

Charterhouse Bank Limited

Citibank Savings

Clydesdale Bank PLC

Co-operative Bank Top Tier

Coutts & Co

Dartington & Co Ltd

Edington Plc

Financial & General Bank plc

Gartmore Money Management Ltd

Girobank plc High Interest Cheque Acc

Humberclyde Finance Group

Lloyds Bank High Interest Cheque Account

M & G/Kleinwort Benson

Midland Bank plc

NatWest Special Reserve Account

Provincial Bank PLC

Royal Bank of Scotland Premium Acc

Save & Prosper/Robert Fleming

Sterling Bank & Trust Ltd

TSB Bank plc (England & Wales)

Tyndall & Co Ltd

Wimbledon & South West Finance Co Ltd

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Between euphoria and reality

STERLING MARKETS are caught between euphoria over the potential benefits from British membership of the European Monetary System Exchange Rate Mechanism and the reality that there are still many economic problems to overcome. The Bank of England is obviously concerned and sent a very strong signal last week against attempts to reduce base rates.

Traders on Liffe were caught flat-footed by a press interview with Mr John Major, the UK Chancellor, indicating that ERM membership is firmly on the agenda, but then ran much too fast in an attempt to catch up. Taking into account technical factors, September short sterling futures should be trading at about 85.30 on base rates of 15 per cent. The contract had struggled to remain above 85.00 until two separate events - the Chancellor's comments on the ERM and the first rise in UK unemployment for nearly 4 years - combined to send prices racing up on Thursday.

There was virtual panic when it was realised that so many traders on Liffe were holding short positions. The rush to cover meant the market crashed through technical resistance at 85.21 to a high of 85.70. As the "shorts" were taken out, prices fell, closing at 85.45.

This gave the opportunity to create more short positions and on Friday the contract opened at 85.29, before rising again, but in a calmer manner. The market is looking towards the ERM, but high UK inflation, a balance of payments deficit and a shrinking budget surplus are the realities that still have to be faced.

UK clearing bank base lending rate 15 per cent from October 5

£ IN NEW YORK

May.18	Close	Previous Close
£ Spot	1.6895-1.6905	1.6925-1.6935
1 month	0.95-0.94pm	0.94-0.93pm
3 months	2.71-2.69pm	2.71-2.69pm
12 months	9.10-9.00pm	9.10-9.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May.18	Previous
8.30 am	88.3	87.6
9.00 am	88.3	87.7
10.00 am	88.3	87.7
11.00 am	88.3	87.9
Noon	88.3	87.9
1.00 pm	88.3	87.9
2.00 pm	88.3	87.9
3.00 pm	88.2	88.1
4.00 pm	88.2	88.1

CURRENCY RATES

May.18	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	0.785115	0.733252
U.S Dollar	7	1.32920	1.24103
Canadian $	13.32	1.56035	1.46168
Austrian Sch.	6½	1.74207	14.417
Belgian Franc	10¼	45.1064	42.3377
Danish Krone	10½	8.31680	7.81724
Deutsche Mark	6.00	2.17789	2.04832
Neth. Guilder	7.00	2.45038	2.30273
French Franc	10¼	7.34915	6.90199
Italian Lira	13½	1603.11	1505.87
Japanese Yen	5¼	202.437	189.567
Norway Krone	8	N/A	7.95376
Spanish Peseta	-	136.323	127.739
Swedish Krona	11	7.97786	7.48155
Swiss Franc	6.00	1.85889	1.74427
Greek Drach.	20½	N/A	202.251
Irish Punt	-	N/A	0.763710

† European Commission Calculations.
* All SDR rates are for May.17

CURRENCY MOVEMENTS

May.18	Bank of England Index	Morgan** Guaranty Changes %
Sterling	88.2	-23.5
U.S Dollar	67.1	-11.2
Canadian Dollar	103.1	+0.6
Austrian Schilling	110.0	+11.9
Belgian Franc	111.4	-2.3
Danish Krone	111.0	+5.2
Deutsche Mark	119.1	+24.9
Swiss Franc	114.1	+22.6
Guilder	115.1	+16.8
French Franc	104.7	-11.9
Lira	101.6	-17.9
Yen	120.6	+50.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for May.17 .

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6905	1.6812	1.6635	1.6392	1.5997

IMM-STERLING $s per £

	Close	High	Low	Prev.
Jun	1.6816	1.6854	1.6796	1.6828
Sep	1.6562	1.6602	1.6540	1.6576
Dec	1.6324	1.6360	1.6330	1.6338

OTHER CURRENCIES

May.18	£	$
Argentina	8109.60 - 8182.05	4800.00 - 4840.00
Australia	2.2215 - 2.2235	1.3140 - 1.3150
Brazil	85.3195 - 85.3790	50.5000 - 51.5000
Finland	6.5765 - 6.5890	3.8980 - 3.9010
Greece	273.75 - 278.25	161.40 - 164.05
Hong Kong	13.1440 - 13.1570	7.7855 - 7.7875
Iran	116.50*	69.00*
Korea(Sth)	1186.50 - 1205.65	706.40 - 712.00
Kuwait	0.49250 - 0.49320	0.29050 - 0.29070
Luxembourg	57.60 - 57.70	34.05 - 34.15
Malaysia	4.5575 - 4.5685	2.7010 - 2.7030
Mexico	4769.45 - 4790.90	2823.00 - 2834.00
N. Zealand	2.9485 - 2.9530	1.7445 - 1.7465
Saudi Ar.	6.3580 - 6.3635	3.7500 - 3.7510
Singapore	3.1285 - 3.1355	1.8530 - 1.8550
S. Af (Cm)	4.4465 - 4.4575	2.6400 - 2.6410
S. Af (Fn)	6.6510 - 6.7845	3.9370 - 4.0160
Taiwan	46.20 - 46.30	27.35 - 27.40
U.A.E.	6.2250 - 6.2320	3.6720 - 3.6730

*Selling rate

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Jun	91-22	92-04	91-16	92-04
Sep	91-17	91-30	91-11	91-31
Dec	91-10	91-23	91-06	91-24
Mar	91-05	91-10	91-01	91-18
Jun	90-31	91-06	90-28	91-12
Sep	90-25	91-00	90-22	91-06
Dec	90-20	-	-	91-01
Mar	90-15	-	-	90-28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100% [illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Jun	0.6538	0.6567	0.6536	0.6580
Sep	0.6555	0.6574	0.6555	0.6598
Dec	0.6574	0.6590	0.6583	0.6618

DEUTSCHE MARK (IMM) DM125,000 $ per DM [illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100% [illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr [illegible]

STANDARD & POORS 500 INDEX $500 times index [illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1) [illegible]

Previous day's open int: Calls 293,843 Puts 311,884 (All currencies)
Previous day's volume: Calls 29,591 Puts 19,417 (All currencies)

POUND SPOT- FORWARD AGAINST THE POUND

May.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6885 - 1.6980	1.6900 - 1.6910	0.94-0.92cpm	6.60	2.72-2.69pm	6.40
Canada	1.9850 - 1.9930	1.9880 - 1.9890	0.33-0.26cpm	1.78	0.72-0.61pm	1.34
Netherlands	3.12¾ - 3.14¾	3.12¾ - 3.13¾	1⅛-1⅛cpm	6.46	5-4⅞pm	6.30
Belgium	57.50 - 57.80	57.60 - 57.70	30-18cpm	5.00	80-61pm	4.89
Denmark	10.61½ - 10.66½	10.63¼ - 10.64¼	4¼-3⅛orepm	4.37	11⅝-10⅝pm	4.23
Ireland	1.0390 - 1.0465	1.0405 - 1.0415	0.35-0.30ppm	3.75	1.25-1.11pm	4.53
W. Germany	2.78¼ - 2.79¼	2.78¼ - 2.78¾	1⅝-1½pfpm	6.73	5-4⅞pm	7.09
Portugal	245.95 - 247.30	246.00 - 247.00	2-22cdis	-0.58	78-107dis	-1.50
Spain	173.05 - 174.80	173.10 - 173.40	10-3cpm	0.45	24-13pm	0.43
Italy	2048 - 2053¾	2048½ - 2049½	5-3lirepm	2.34	14-12pm	2.54
Norway	10.80¼ - 10.85¼	10.82¼ - 10.83¼	3½-3¼orepm	3.67	9⅝-8⅞pm	3.37
France	9.38½ - 9.41½	9.38½ - 9.39½	4¼-4cpm	5.19	12¼-11¼pm	5.09
Sweden	10.16 - 10.21½	10.17½ - 10.18½	1⅞-1⅝orepm	2.06	5⅝-5¼pm	2.11
Japan	258 - 259	258 - 259	1¾-1⅝ypm	7.83	4¾-4⅝pm	7.45
Austria	19.61 - 19.65	19.61 - 19.64	10¾-10¼gropm	6.42	31⅝-29⅝pm	6.24
Switzerland	2.37 - 2.38	2.37 - 2.38	1⅛-1¼cpm	6.32	3¾-3⅝pm	6.21
ECU	1.3610 - 1.3625	1.3610 - 1.3620	0.53-0.50cpm	4.54	1.54-1.49pm	4.45

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.16-5.11cpm 12 month 9.13-9.03pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6885 - 1.6980	1.6900 - 1.6910	0.94-0.92cpm	6.60	2.72-2.69pm	6.40
Ireland†	1.6225 - 1.6275	1.6245 - 1.6255	0.38-0.33cpm	2.62	1.18-1.08pm	2.78
Canada	1.1730 - 1.1785	1.1775 - 1.1785	0.50-0.53cdis	-5.25	1.49-1.54dis	-5.15
Netherlands	1.8505 - 1.8580	1.8520 - 1.8530	par-0.02cdis	-0.06	0.02-0.07dis	-0.10
Belgium	34.05 - 34.15	34.05 - 34.15	1.50-7.50cdis	-1.58	8.00-18.00dis	-1.52
Denmark	6.28½ - 6.30¼	6.29 - 6.29½	1.05-1.35oredis	-2.25	3.15-3.85dis	-2.18
W. Germany	1.6450 - 1.6525	1.6475 - 1.6485	0.05-0.03pfpm	0.29	0.09-0.06pm	0.18
Portugal	145.80 - 146.00	145.85 - 145.95	83-93cdis	-7.25	285-300dis	-8.03
Spain	102.65 - 103.10	102.70 - 102.80	50-54cdis	-6.60	153-158dis	-6.04
Italy	1210 - 1214½	1211¼ - 1212¼	4.00-5.00liredis	-4.45	11.00-12.50dis	-3.87
Norway	6.39½ - 6.41¼	6.40¼ - 6.40¾	1.50-1.85oredis	-3.13	4.75-5.35dis	-3.15
France	5.54½ - 5.57	5.55¼ - 5.55¾	0.59-0.64cdis	-1.33	1.82-1.90dis	-1.34
Sweden	6.01½ - 6.03	6.02 - 6.02½	2.20-2.35oredis	-4.53	6.25-6.70dis	-4.30
Japan	152.55 - 153.00	152.85 - 152.95	0.13-0.11ypm	0.94	0.41-0.38pm	1.03
Austria	11.58¼ - 11.61½	11.60½ - 11.61	0.15pm-0.25gdis	-0.05	0.15pm-0.95dis	-0.14
Switzerland	1.4000 - 1.4085	1.4040 - 1.4050	0.03-0.07cdis	-0.43	0.07-0.15dis	0.28
ECU	1.2395 - 1.2450	1.2415 - 1.2425	0.21-0.20cpm	1.98	0.62-0.59pm	1.95

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

May.17	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.691	2.785	258.5	9.390	2.375	3.133	2049	1.989	57.65
$	0.591	1	1.647	152.9	5.553	1.404	1.853	1212	1.176	34.09
DM	0.359	0.607	1	92.82	3.372	0.853	1.125	735.7	0.714	20.70
YEN	3.868	6.542	10.77	1000.	36.32	9.188	12.12	7926	7.694	223.0
F Fr.	1.065	1.801	2.966	275.3	10.	2.529	3.337	2182	2.118	61.40
S Fr.	0.421	0.712	1.173	108.8	3.954	1	1.319	862.7	0.837	24.27
H Fl.	0.319	0.540	0.889	82.51	2.997	0.758	1	654.0	0.635	18.40
Lira	0.488	0.825	1.359	126.2	4.583	1.159	1.529	1000.	0.971	28.14
C $	0.503	0.850	1.400	130.0	4.721	1.194	1.575	1030	1	28.98
B Fr.	1.735	2.933	4.831	448.4	16.29	4.120	5.435	3554	3.450	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

May 18	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14¾	15-14¾	15-14⅞	15⅛-15	15⅛-15	15⅛-15
US Dollar	8¼-8⅛	8¼-8⅛	8⅜-8¼	8⅞-8⅜	8⅞-8¾	8⅞-8⅝
Can. Dollar	13½-13¼	13½-13¼	13⅝-13⅜	13⅝-13⅝	13⅝-13⅜	13¼-13
D. Guilder	8⅛-7¾	8⅛-7¾	8⅜-8¼	8⅞-8⅜	8⅝-8½	8⅞-8¾
Sw. Franc	8⅞-8⅝	8⅞-8⅝	8⅞-8¾	8⅞-8⅝	8⅞-8⅝	8⅞-8⅞
Deutschmark	7⅞-7¾	7⅞-7⅞	8-7¾	8¼-8⅛	8⅞-8⅞	8⅞-8⅞
Fr. Franc	9⅝-9½	9⅝-9½	9⅞-9⅞	9⅞-9⅞	9⅞-9⅞	10⅛-10⅛
Italian Lira	13-11	13¼-12¼	12⅞-12⅞	12½-12	12⅞-12	12⅞-12⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

FT LONDON INTERBANK FIXING

(11.00 a.m. May.18) 3 months US dollars bid [illegible] offer [illegible]; 6 months US Dollars bid [illegible] offer [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK Treasury Bills and Bonds

4pm May 18

Prime rate [illegible]; Broker loan rate [illegible]; Fed. funds [illegible]; Fed. funds at intervention [illegible]; One month [illegible]; Two month [illegible]; Three month [illegible]; Six month [illegible]; One year [illegible]; Two year 8.60; Three year [illegible]; Four year [illegible]; Five year [illegible]; Seven year [illegible]; 10-year [illegible]; 30-year 8.70

May.18	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.80-7.90	8.05-8.15	8.10-8.20	8.20-8.30	8.50-8.65	8.00
Paris	9½-9⅝	9⅝-9¾	9⅝-9¾	9⅞-9⅞	9⅞-10	9.50
Zurich	8¾-8⅝	8⅝-8⅞	-	8⅝-8⅞	-	-
Amsterdam	8.00-8.13	8.21-8.29	-	8.37-8.44	-	-
Tokyo	7⅞-7⅞	7⅞-7⅞	-	7⅞-7⅞	-	-
Milan	12¼-12½	12½-13⅛	-	12⅞-13	-	-
Brussels	8.00	9⅞-10⅛	-	10-10¼	-	-
Dublin	10¾-10½	11¼-11⅝	11⅜-11½	11½-11⅝	11¾-11⅞	-

LONDON MONEY RATES

May 18	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15⅛	14⅞	15	15⅛	15⅛	15⅛
Interbank Bid	12	14⅞	14⅞	15	15	15
Sterling CDs.	-	-	14⅞	15⅛	15⅛	15⅛
Local Authority Deps.	14⅞	14¾	14⅞	15	15	15
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14¾	14⅞	14⅝	-	-
Company Deposits	-	-	15⅛	15⅛	15⅛	15⅛
Finance House Deposits	-	-	14⅞	15⅛	15⅛	15⅛
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	14⅞	-
Fine Trade Bills (Buy)	-	-	15⅛	15⅛	14⅞	-
Dollar CDs.	-	-	8.50	8.40	8.50	8.75
SDR Linked Dep. Offer	-	-	8⅞	9⅛	9¼	9⅜
SDR Linked Dep. Bid	-	-	8⅞	8⅞	9⅛	9⅜
ECU Linked Dep. Offer	-	-	10⅛	10¼	10⅜	10⅝
ECU Linked Dep. Bid	-	-	9⅞	10⅛	10⅜	10½

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.4513 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1990. Agreed rates for period May 26 to June 25, 1990, Scheme I: 15.94 p.c., Schemes II & III: 16.49 p.c. Reference rate for period March 31, 1990 to April 30, 1990, Scheme IV&V: 15.247 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from May 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989, Deposits withdrawn for cash 5 per cent.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY MAY 18 1990 US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	Local Currency Index	% change local currency since Dec.29 '89	Gross Div. Yield	THURSDAY MAY 17 1990 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (81)	131.82	−12.9	115.61	115.25	−9.6	6.03	132.74	116.41	115.74	158.31	125.85	136.78
Austria (19)	246.61	+35.3	216.28	211.37	+32.2	1.28	252.68	221.60	215.69	285.63	193.15	114.91
Belgium (61)	152.70	−1.3	133.92	128.41	−5.4	4.49	153.61	134.72	128.61	160.02	132.11	130.77
Canada (120)	136.00	−10.6	119.27	116.01	−9.1	3.45	136.15	119.41	115.75	153.61	130.37	138.05
Denmark (34)	254.04	+4.9	222.79	217.41	+0.3	1.53	251.82	220.85	215.60	260.82	236.69	174.58
Finland (26)	141.54	+6.2	124.13	115.83	+2.4	2.36	141.91	124.45	115.95	152.29	129.99	144.44
France (125)	167.64	+7.4	147.02	146.07	+3.2	2.81	167.14	146.59	145.51	168.85	141.69	114.82
West Germany (93)	133.60	+8.0	117.17	114.46	+5.2	1.95	131.94	115.71	113.00	137.71	122.05	81.37
Hong Kong (48)	121.42	+3.7	106.48	121.38	+3.4	5.12	121.07	106.18	121.03	128.90	112.24	133.34
Ireland (17)	183.85	+1.3	161.24	159.42	−3.2	2.75	182.94	160.44	158.58	198.57	172.72	142.62
Italy (96)	106.16	+7.9	93.10	96.09	+3.1	2.48	105.77	92.76	95.64	106.16	91.85	76.36
Japan (454)	151.12	−23.4	132.53	146.06	−18.6	0.57	152.41	133.67	146.68	197.26	124.40	183.74
Malaysia (35)	225.22	−1.7	197.52	234.37	−1.5	2.30	222.61	195.23	231.23	245.32	204.15	184.26
Mexico (13)	501.69	+54.1	439.99	1551.49	+62.1	0.33	488.66	428.56	1507.72	501.69	324.53	200.63
Netherland (43)	141.60	−1.6	124.18	119.72	−4.6	4.71	143.84	126.15	121.55	145.66	130.43	114.14
New Zealand (17)	63.90	−11.4	56.04	59.23	−8.1	7.42	63.08	55.32	58.37	75.36	59.57	69.20
Norway (23)	242.80	+21.5	212.93	211.08	+18.0	1.46	241.20	211.53	209.69	245.90	202.34	184.69
Singapore (25)	203.16	+14.6	178.17	173.58	+11.9	1.89	199.12	174.63	169.98	203.16	179.70	160.33
South Africa (60)	190.71	−3.0	167.26	165.76	+9.0	3.58	193.80	169.97	167.77	251.39	173.80	133.92
Spain (42)	163.30	+0.1	143.22	127.12	−6.0	4.18	163.32	143.23	127.44	165.19	132.84	149.31
Sweden (35)	202.67	+5.5	177.75	180.70	+2.6	2.23	202.62	177.70	180.79	206.95	173.89	158.65
Switzerland (65)	101.35	+7.7	88.89	88.25	−1.9	2.34	100.94	88.53	87.89	102.05	88.75	69.85
United Kingdom (305)	154.94	−2.4	135.88	135.88	−6.9	4.90	155.79	136.63	136.63	164.31	139.87	147.85
USA (537)	143.23	+0.1	125.62	143.23	+0.1	3.39	143.18	125.57	143.18	145.40	130.61	130.87
Europe (985)	146.13	+2.6	128.16	126.03	−1.8	3.57	146.15	128.18	126.02	146.66	135.57	116.98
Nordic (118)	200.14	+6.8	175.53	167.98	+3.1	1.87	199.31	174.79	167.35	201.89	185.01	152.32
Pacific Basin (680)	149.35	−22.5	130.98	143.86	−17.8	0.88	150.53	132.02	144.41	192.75	124.63	179.69
Euro−Pacific (1645)	148.43	−14.0	130.18	137.10	−12.3	1.95	149.15	130.81	137.41	174.18	130.35	154.63
North America (657)	142.70	−0.6	125.15	141.43	−0.4	3.39	142.65	125.11	141.36	145.78	131.02	131.21
Europe Ex. UK (680)	138.91	+6.0	121.83	119.69	+1.7	2.77	138.49	121.45	119.16	139.50	124.81	98.01
Pacific Ex. Japan (206)	127.50	−5.5	111.82	115.57	−3.6	5.26	127.43	111.76	115.33	139.32	122.53	131.09
World Ex. US (1838)	148.63	−13.7	130.35	137.04	−11.9	2.02	149.34	130.97	137.34	173.77	131.30	153.87
World Ex. UK (2070)	144.70	−10.1	126.90	139.33	−8.2	2.23	145.10	127.25	139.45	162.00	130.80	144.32
World Ex. So. Af. (2315)	145.32	−9.5	127.45	138.77	−8.3	2.47	145.74	127.82	138.94	161.84	131.95	144.68
World Ex. Japan (1921)	144.17	+0.5	126.44	135.51	−0.9	3.53	144.18	126.44	135.46	145.52	134.62	126.02
The World Index (2375)	145.59	−9.4	127.69	138.96	−8.1	2.48	146.03	128.07	139.14	162.05	132.25	144.62

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent change 15/5/90: Deletion: London & Edinburgh Trust (UK).

LONDON RECENT ISSUES

EQUITIES [illegible]

FIXED INTEREST STOCKS [illegible]

RIGHTS OFFERS [illegible]

BANK OF ENGLAND TREASURY BILL TENDER

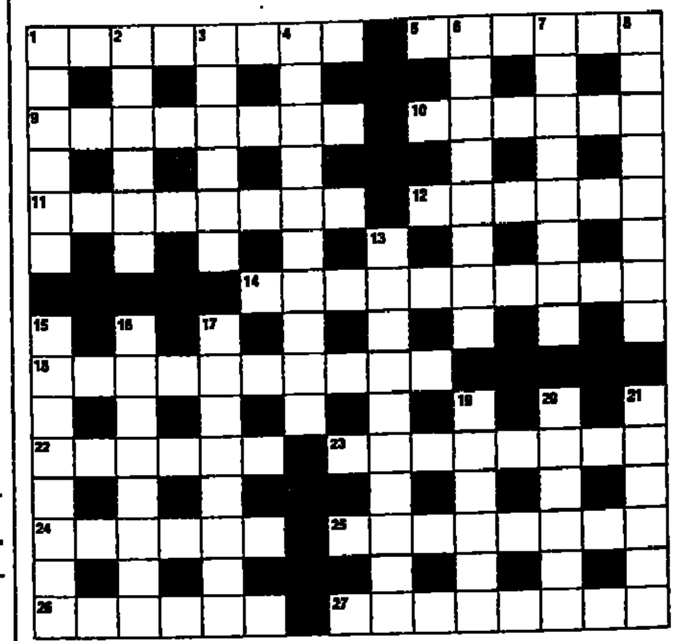
[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

CROSSWORD

No.7,243 Set by GRIFFIN



ACROSS

1 Chaps on board honour the RAF (8)
5 Start rewriting article on beds (6)
9 Force me to retire as hip's broken (8)
10 Chap worried about including what vicars do (6)
11 Deliver peer to host (8)
12 Head waiter included chicken for barrister (6)
14 Are into ordering, in pen, some writing materials (10)
18 Coming from Bury, see through intruder (10)
22 Swine takes brooch, whistling (6)
23 Unaware I permit no intrusion (8)
24 Haul retreating serviceman into grave (6)
25 Chile doctor accepted first new issue (8)
26 Not a day going round tower that's boring? (6)
27 Family name inserted after hospital admission (8)

DOWN

1 Tongue with cabbage (mainly red) inserted (6)
2 Hang on – there's a 2p limit (6)
3 Truly the soldiers' friend (6)
4 Slipping into gear I'm leaving the country (10)
6 Herb and Jack groan when injured (8)
7 Examined methodically any leads to switch (8)
8 Containers for used coffin nails (8)
13 Sickly gent the SRN is to make stronger (10)
15 Argued when placed in side turning by Land's End (8)
16 Prevent buttons causing an obstruction (8)
17 Border where you'll exchange forint with sovereign (8)
19 Delivery man left in boudoir (6)
20 Farm building, engineers accepted, is unproductive (6)
21 Attitude of man over religion (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 2.

JOTTER PAD

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years) [illegible]

Five to Fifteen Years [illegible]

Over Fifteen Years [illegible]

Undated [illegible]

BRITISH FUNDS—Contd

Index-Linked [illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies [illegible]

Public Board and Ind. [illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

Mkt Cap £m	Stock	Price	Wk % chg	Y'ld Gr's	Last xd	Dividends Paid	City-line
	ANZ SAL	216	-4.4	9.2	8.1	Feb July	1698
	Abbey National 10p	193½	2.9	3.9	12.3	Apr Oct	5411
	Allied Irish Ord.	221	1.4	4.3	27.11	Dec July	1354
	Algemene Fl.10	£12	-1.0	7.4	3.5	Aug May	1567
	Anglo Irish	75	....	5.9	30.4	Jan Jul	1355
	Ansbacher (H.) 1p.	73	4.3	4.6	12.3	April	1624
	Bancaire Cie Fr100.	£69½	-2.5	2.0	9.5	May Mar	2202
	Banco Bilbao Viz.	£19	2.7	4.4	9.12	Dec June	–
	Banco de Santander.	£28½	....	3.9	31.10	Apr Oct	–
	Bank Ireland Ir£1.	235	2.2	6.1	27.11	July Dec	1360
	Bank Leumi	£19½	....	–	–	–	1740
	Bank Leumi (U.K.).	345	....	5.2	26.2	Mar Sep	1740
	Bank Scotland	115	6.5	5.3	30.4	Nov Jul	1742
	Do. 9¼pc Irrd Pf.	91½	4.6	13.5	30.4	May Nov	1462
	Bank of Wales	39	....	9.6	30.4	Nov Jun	1743
	Barclays £1	547	3.2	6.7	12.3	Oct May	1754
	Benchmark 20p.	14	....	15.5	9.4	May Oct	1802
	Brown Shipley £1.	320	1.9	4.4	27.11	Jan Aug	1983
	Cater Allen £1	377	3.6	8.3	27.11	Jan. July	2081
	Chancery	137	....	7.8	27.11	Jan July	2102
	Commerzbk DM10.	£20¼	-8.1	3.3	27.5	May	1046
	Dai Ichi KBk Y50	930	4.5	0.3	4.7	June	3221
	Deutsche Bk DM50.	£276¼	-2.6	1.8	17.5	May	2345
	Espirito Santo	£19½	-1.9	2.3	–	June	5187

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES – Contd

Miscellaneous

THIRD MARKET

Stock	Price	+or-	Div Net	Y'ld Gr's	Dividends Paid	City line
7.06 Tomorrows Leisure 20p γ	63	–1	–	–	–	4246
1.57 UPL Group 10p γ	39	–2.5	‡	22.5	Dec. July	4362
9.47 Unit Group γ	177	......	3.8	11.12	Jan Aug	4357
9.75 Video Magic Leis. 1p γ	59	......	4.5	26.1	Jan July	5071
3.12 Vista Ents 5p γ	3¼	–7.1	–	–	–	3994
6.95 Vizcaya Hldgs 5p γ	13	......	–	–	–	4193
39.7 Whitegate Leisure 20p γ	25½	–3.8	1.3	12.2	April	1105
0.60 Do. Wrnts γ	3	......	–	–	–	1116
17.9 Wilton Group 1p γ	4	......	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
# Price at time of suspension
¶ Not comparable
† Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 γ	830	2.5
Finlay Pkg. 5p γ	53	2.9
Holt (Jos) 25p γ	1290xd	–0.1

IRISH

Cap. 8½% Ln. 1991	£98	......
9pc Cap Ln. 1996	£94¼	–0.7
Fin. 13% 97/02	£112	......
Arnotts	418xd	3.4
Carrol (P.J.) γ	147	–3.3
Hall (R. & H.)	175	......
Helton Hldgs. γ	72½	0.7
IRG	200	......
United Drug	165	1.2

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	39
Amstrad	5½
Astec (BSR)	5¾
BAT	85
BOC Grp.	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons.	40
Comm Union	40
Courtaulds	24
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	90
GEC	18
Glaxo	56
Grand Met	45
Guardian	19
GKN	33
Hanson	18
Hawker Sidd.	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds.	52
Marks & Spencer	17
Midland Bk	27
Nat West Bk	29
P & O Dfd	50
Polly Peck	37
Racal Elect.	19
RHM	35
Rank Org Ord.	68
Reed Intnl	33
STC	20
Sears	9½
SmKl. Beecham A	46
TI	38
TSB	11
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	56
Vickers	18
Wellcome	60

Property

Brit Land	32
Control Secs.	5
Land Securities	44
MEPC	44
Mountleigh	14

Oils

Ariva Petlm	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petlm	12
Gaelic Res.	4½
Premier	10
Shell	37
Tuskar Res.	10
Ultramar	31

Mines

Lonrho	20
RTZ	45

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4pm prices May 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37½	20¼	AAR	.48	2.3	13	1068	21⅛	20⅞	21	-⅛
9¼	8	ACM n	1.01	12.		371	8¾	8½	8¾	
11⅝	9⅜	ACMIn	1.26	13.		1184	9⅝	9⅜	9½	
9⅞	7¼	ACM M	n1.01	13.		226	8	7⅞	7⅞	-⅛
12⅛	10	ACMMM				429	10½	10	10⅜	+¼
11½	9⅜	ACM Sc	1.26	13.		1767	9¾	9⅝	9⅝	
9⅜	8⅛	ACMSp	1.01	12.		965	8½	8⅜	8⅜	
22⅝	14⅛	AL Lab	.16	.7	19	160	21¾	21⅝	21¾	
4⅛	3	AMCA	.20e	6.4	9	20	3⅛	3	3⅛	
6⅛	2⅛	AM Intl			8	1410	2⅝	2½	2½	-⅛
23⅛	10¼	AM In pf	2	18.		102	10⅞	10½	10½	-¼
107¼	52½	AMR			13	2548	65¼	65⅛	65¼	-¼
27	25	ANR pf	2.67	11.		1	25¼	25¼	25¼	
4¼	3	ARX				65	3½	3⅜	3½	-⅛
72¾	39	ASA	3a	6.1		2683	49¾	47½	49⅛	+1⅞
71¼	55¼	AbtLab	1.68	2.4	18	5162	71⅜	70¾	71⅛	-¼
36⅛	27⅝	AbtLb wi				18	35⅞	35⅞	35⅞	
17¼	11¼	Abitibi g	.50			6	12¼	12¼	12¼	
13	8¼	AcmeC	.40	4.3	11	29	9½	9⅛	9¼	-⅛
9¾	7⅝	AcmeE	.32	3.6	11	85	9	9	9	
40	28⅛	Acuson			24	698	u40⅛	38¼	39⅞	+⅝
16½	13⅝	AdaEx	2.06e	13.		61	16¾	16⅛	16⅛	-⅛
15¾	8⅞	Adobe				72	12⅝	12½	12⅝	
20¼	17¾	Adob pf	1.84	9.7		1	19	19	19	+⅛
21⅝	20⅛	Adob pf	2.40	11.		1	20⅞	20⅞	20⅞	+⅛
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Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
6⅞	6⅛	RangrO	.05e	.9	22	1290	6½	6⅜	6½	+ ⅛
39¼	25¼	RayCm	.32	1.0	209	2727	33⅞	32¼	33⅞	+1⅝
19⅝	14½	RJamF	.24	1.3	7	5	19	19	19	
28½	18⅞	Rayonr	3.60	15.	6	404	24	23¾	24	+ ⅛
2⅞	1⅜	vjRaytc			4	6	2½	2½	2½	
85	60	Raythn	2.40	3.7	8	1203	64⅞	64⅜	64¾	
24⅞	21	RdrDg n	.12e	.5		1868	24½	23¾	24⅜	+ ⅛
5	15-16	RdgB n				933	1⅞	1⅜	1⅞	+ ⅛
17	14⅜	REIT	1.42	9.8	10	139	14⅝	14½	14½	
16¼	13⅝	RltRef	1.72	12.	8	32	13⅞	13¾	13⅞	− ½
12¼	5	RecnEq				458	5¼	5	5	− ⅛
20	12⅝	Reebok	.30	1.6	12	1791	18⅝	18⅛	18⅜	− ⅛
14¾	8	Reece	.15e	1.8		2	8¼	8¼	8¼	
½	5-32	Regal				172	½	15-32	½	
15⅝	11⅞	ReichTg	1.78e	15.	7	73	12	11¾	12	+ ⅛
8⅞	4⅞	RelGrp	.32	6.4	125	16	5	5	5	
24⅞	16¼	Repsol	n.27e	1.1		933	24⅝	24¼	24⅝	+ ⅜
5¾	4⅛	RepGyp	.05j		32	4	4⅛	4⅛	4⅛	
52⅞	42½	RepNY	1.32	2.8	347	553	48¼	47⅞	47⅞	+ ¼
11¼	1⅞	Rexene				302	2¾	2½	2½	
33⅞	18⅞	RayRey	.80	3.6	9	14	22¼	22¼	22⅜	+ ⅛
60⅛	48½	RayMtl	1.80	3.3	7	959	55⅛	54⅞	55⅛	+ ⅛
45⅞	34	RhP pfC				1	39⅞	39⅞	39⅞	− ⅞
19	14¾	RhP pfA				11	16¾	16½	16½	− ½
3½	1⅞	RhoP wt				30	2⅞	2¾	2⅞	+ ⅛
22	16½	RhoPl n				284	19⅝	19⅛	19¼	− ½
41⅛	29½	RiteAid	.90	2.7	14	1095	33⅞	33⅛	33⅞	
11-32	1-16	RvrOak				225	7-64	7-64	7-64	+1-32
19⅞	15	RbtHlf			13	200	15½	15	15	− ⅜
14⅜	9¼	Robtsn			30	297	12½	12⅛	12¼	
22⅛	17½	RochG	1.56	8.1	10	198	19⅜	19⅛	19¼	[illegible]

[illegible]

– X–Y–Z –

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69½	46	Xerox	3	6.1	5	2390	49⅞	49	49⅛	− ½
47⅞	43⅝	Xerox pf				1	47	47	47	− ⅝
39⅞	21⅛	XTRA	.48	2.1		85	23	22⅞	23	+ ⅛
29	18¾	XTRA pf1.94		9.9		49	19⅞	19⅛	19½	+ ¼
4⅛	2⅛	Zapata				2879	2⅛	2⅛	2⅛	− ⅛
12⅛	6⅞	Zemex				1	7	7	7	
21⅞	7⅞	ZenithE				830	9½	9	9	− ½
21½	13½	ZenNtl	.84	5.3	9	282	15¾	15⅛	15¾	+ ⅛
9¾	5⅝	Zenix	.90	16.		122	5⅞	5⅝	5⅝	− ¼
18½	12⅞	Zero s	.40	2.8	14	55	14⅝	14⅜	14⅜	− ⅜
47½	28	Zurnln	.76	1.6	21	820	47¼	46⅝	46¾	− ½
12⅝	10⅝	Zweig	1.21e	10.		214	11⅞	11¾	11⅞	+ ⅛
10	8⅞	ZweigTl	.96	10.		1462	9¼	9⅛	9¼	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices May 18

[illegible]

NASDAQ NATIONAL MARKET

4pm prices May 18

[illegible]

The Business Column

Factors of a national nature

Scotland is one of the main European centres for semiconductor production, although the UK does not have a high-volume chip manufacturer. The bulk of British production of commodity ball bearings is in the hands of foreign-owned companies. Yamazaki, the Japanese company, produces about 20 per cent of all British-made computer numerically controlled machine tools in a UK market for general purpose machines dominated by foreign producers.

The UK Government's support for Japanese car producers in negotiations over the European Community's policy on imports shows Britain's national champions are likely to be foreign owned. So how can nationality be defined?

Take Unitech, a leading worldwide producer of power supplies for the electronics industry, which is always described as British. Its headquarters are in Reading, Berkshire, and most of its top management is British.

One criterion of nationality is ownership. The main shareholders in Unitech are Swiss. Yet few would describe Unitech as Swiss. Ownership can only be a partial definition of a company's nationality.

Where a company makes its money is another criterion. On this Unitech would certainly fail to be British. About 40 per cent of its sales are in Europe, with 25 per cent in the Far East and 35 per cent in North America. But what matters more is where the goods are made. If all the foreign sales were exported from a UK base, Unitech should be described as a British company.

Its workforce is liberally spread around the world. It has a total of 6,000 employees, with 1,000 in the Far East, 2,000 in North America and 3,000 in Europe, with a large share in France. Yet it would be inappropriate to call it an Anglo-French company or even a European company

It might be objected that the distribution of manufacturing and assembly activities matters less than where research, development and design are located. Again Unitech would not count as purely British. It has research and development facilities in Britain, the Far East and the United States.

Finally, the location of top management matters. The company's headquarters in Reading is the main source of power within the group as a whole. It is to Britain that subsidiaries will turn for discussions on important decisions.

But that is no reason for the management of a British international company to favour the UK any more than the management of any other international company. There will be many sources of power within an international company. Moreover the nationality of top management cannot be a decisive criterion, for the chief executives of Glaxo and SmithKline Beecham, Britain's two leading pharmaceuticals groups, are both American.

One conclusion is that there is no single factor which can decide nationality. A profile has to be built up from several characteristics. Unitech has a predominantly British culture but that is not something which can be pinned down in figures. Perhaps it should be called a British international company or a predominantly British company.

More important, simple nationality tests are misleading. What matters are patterns of dependence and commitment. An important distinction is whether a company operates in international markets or whether it is dependent upon a single national market. These two types of companies will behave very differently.

Another distinction is whether a company is committed to the economy in which operates, by contributing to its long-run capacity for innovation. People is South Wales joke that they are happier to have Japanese rather than English companies investing in the area because they are likely to survive longer and invest more.

Religious, political or social attachments, such as judaism, catholicism or environmentalism which span national borders, might be a better way of categorising companies' motives, culture and characteristics than outmoded notions of nationality.

Charles Leadbeater

MONDAY INTERVIEW

A final lap for driving ambition

Jacques Calvet, chairman of Peugeot, speaks to **William Dawkins** and **Kevin Done**

The controversial Mr Jacques Calvet, chairman of Peugeot for the past eight years and the strongman of the French car industry, is planning against all the odds to complete his final lap at the head of Europe's third-largest car maker in real style.

Mr Calvet's reputation has taken a battering at home in the past year for his alleged intransigence in Peugeot's worst-ever wage strike. He has raised eyebrows abroad with his outspoken stance against Japanese car imports.

Even his critics agree that his toughness was exactly what was needed to save Peugeot, which also makes Citroën cars, from near bankruptcy in the early 1980s. The company, in line with other car makers, has also been helped by the European car market's longer than expected growth, which now seems to be ending.

But is Mr Calvet, the sceptics ask, the right man to steer Peugeot through the 1990s, against the coming wave of Japanese competion?

Mr Calvet, who admits sometimes to being "too Cartesian" in his management approach, believes the strike at least drove home to the workforce the seriousness of the Japanese threat. "I have a fault, from which I suffer greatly. I am much too logical, not sufficiently directed by intuition," he confesses.

After that setback – which cost the entire group just over 2 per cent of a year's sales – Mr Calvet now believes he is back on the road to fulfilling his ambition. That is to turn the producer of Peugeot and Citroën cars into Europe's biggest-selling car group by the time he expects to leave, between 1992 and 1994. He is, meanwhile, planning new investments in Britain, Turkey and China, and aims to compete for the first time against high-range BMWs and Mercedes within the decade.

"In three years our production capacity will be 2.6m cars. That is 400,000 more than now . . . I believe that with this level of production we can compete," says Mr Calvet.

The image is of a man with undiminished drive. Yet it is revealing that he is now talking for the first time of when he might leave.

Mr Calvet is unusual even in France's colourful and highly politicised corporate scene for the extent to which he identifies his job as head of one of the country's biggest private companies with the national interests of France itself.

"Remember the celebrated formula of a one-time head of General Motors that what was good for GM was good for the US? Well I consider that what is good for France is good for Peugeot – I reverse the slogan," he says. "I cannot see how the French car industry can fight for interests contrary to French interests."

Hardly a French Government minister or European Commissioner has escaped the remorseless Calvet discourse on the need to give Europe's car industry a decade or so of protection against free competition with Japan. He has always argued that the Japanese car industry competes on unequal terms in the West with structural advantages ranging from traditional working practices to the protected nature of the Japanese market.

Although the French Government is normally sensitive to the needs of an industry that directly and indirectly employs 10 per cent of France's workforce, some ministers have even begun to distance themselves from Mr Calvet's increasingly loud calls for protection. But he is undismayed. "If we completely open our frontiers in the present circumstances, we will be eliminated . . . I consider it impossible that France and Europe would want their own destruction," he says.

His demands, which have played a big part in forming those of the entire European motor industry, are for an EC-wide quota on Japanese cars imported from all sources for "at least" the next decade and until European car makers have achieved half the market share in Japan that the Japanese have in the EC. He believes European-built Japanese cars should be included in this quota.

The urgency with which he links Peugeot's interests with those of France reflects Mr Calvet's background as a civil service high-flyer. He is one of those adaptable members of the French establishment who can move between top public and private sector jobs without turning a hair.

A graduate of the Ecole Nationale d'Administration, the elite civil service college, he was head of the personal staff of Mr Valéry Giscard d'Estaing while the former French President was Finance Minister, and later head of Banque Nationale de Paris, the largest state-owned bank.

His critics see in his public service origins a rigid habit of thought that has led Mr Calvet to centralise too many decisions on himself and his entourage even, it is said, to the extent of wanting the last say on the colour of new models' door trims. This has created a bureaucratic leadership that has lost touch with Peugeot's workforce, critics charge.

Indeed, he looked dangerously isolated as he continued to refuse to negotiate with the strikers, against advice. "You have before you the only man in France who has managed to unite the Socialist Party, even if it is against me," he jokes. Two senior directors later left, though neither has been imprudent enough to criticise Mr Calvet in public.

French public opinion, increasingly won over by business success in recent years, has at least partly forgiven him since then. For even with the strike, Peugeot managed a 16.4 per cent rise in net profits to Ffr10.3bn last year, its fifth straight year of earnings growth. It made a record 2.2m vehicles in 1989, behind only Volkswagen and then Fiat in Europe. And this year's Peugeot wage round has gone smoothly through the unions except for the Communist-led CGT, the strike ring-leader.

The moral of the dispute was "that I had not succeeded in making my personnel understand the danger before us vis à vis the Japanese on the one hand, and the increasingly strong competition between Japanese, European and American car maker," says Mr Calvet. As for his alleged unwillingness to delegate, Mr Calvet points out that for most of his reign, Peugeot has been running from one survival-threatening challenge to another, a situation which demands strong leadership.

First, there was the radical job-cutting and restructuring programme needed to save a deeply indebted Peugeot from bankruptcy at the start of the decade, the last time Mr Calvet found himself at loggerheads with the Socialist Government. It has only just wiped out the crippling Ffr30bn debts it had four years ago. Then, there was the need to reorganise Peugeot's fragmented model range to give the car maker its present clear identity. Now now, there is the need to shape up for Japanese competition.

Yet Mr Calvet maintains he is changing his management strategy. He is promoting younger executives from within to form the basis of "a new kind of organisation," in which decisions will be delegated more widely, he says. The aim is to pave the way for his own departure, which he wants to be so smooth that "people will consider it a non-event." Mr Calvet, who joined Peugeot in June 1982 and became chairman two years later, adds: "I believe one shouldn't stay for much longer than 10 years in a job . . . because after that you need somebody with other ideas."

Having dragged Peugeot from the trough of industrial disaster to the peak of prosperity, where does Mr Calvet plan to steer the group in his last few years? He is certainly not going to rush Peugeot into an international alliance of the type to have swept the car industry recently, such as between Renault, his French state-owned rival and Volvo of Sweden and between West Germany's Daimler-Benz and Mitsubishi of Japan.

Mr Calvet accepts the logic of the link-up between a Renault and Volvo, which gives both access to types of products and expertise outside their normal range. But this is not the way Peugeot plans to pursue its own development, the main immediate direction of which is into executive cars. Having launched its successful Citroën XM and Peugeot 605 into the executive car market over the past year, it is now determined to continue alone into the higher echelons of the luxury car market. It plans to bring out more new models to compete against the BMW 7 and Mercedes S-Class saloons before the 1990s are out.

Neither does Mr Calvet see special advantages in merging with a volume car maker like Fiat, the subject of a spate of rumours. After all, Peugeot is already a merger of three volume producers, Peugeot, Citroën and in 1979 the European subsidiaries of Chrysler.

Instead, Mr Calvet will continue his policy of seeking very specific and limited accords, like Peugeot's joint six-cylinder engine with Renault, shared light commercial van production with Fiat and its accord to supply engines and gear boxes to Ford and Rover respectively. "For generalist car makers, the only serious policy is to have a lot of agreements on specific points," he urges, adding that Peugeot has no new agreements of this type on the immediate horizon.

In short, the final lap of Mr Calvet's period at the wheel of Peugeot looks set to contain just as many challenges as the first. The car maker has long recovered from its disaster, has benefited from the market's longer than expected growth, and is now preparing for what may turn out to be its biggest encounter, with the Japanese.

PERSONAL FILE

1931 Born, Boulogne sur Seine, just outside Paris. Educated Lycée Janson-de-Sailly, Faculté de Droit de Paris, Ecole Nationale d'Administration.

1974 Deputy managing director, Banque Nationale de Paris, becoming president, from 1979-1982.

1982 Joins Peugeot group, becoming chairman in 1984

'I have a fault: I am much too logical.'

A challenge to the power to charge-cap

JUSTINIAN

The problems of financing local government have always been political and economic, since local authorities are dependent upon both partisan legislation and financial controls from central Government.

A legal dimension was added to the problems in the 1980s as local authorities chafed under the tensions inevitably arising from novel conditions that attach to Ministerial powers and duties, and challenged the decisions of central Government in the courts.

Just as rate-capping produced its crop of court cases following the Rates Act 1984, so the Local Government Finance Act 1988 is about to spawn its own brand of litigation.

Are the 21 local authorities who are testing charge-capping by the Secretary of State for the Environment likely to succeed where their predecessors failed to defeat the imposition of rate-capping?

While the courts have in recent years undoubtedly been flexing their muscles by way of judicial control over administrative action, Ministers have correspondingly been more careful in framing legislation and more circumspect in exercising statutory powers and duties.

The latest challenge arises from a power given by the 1988 Act to the Secretary of State to fix a maximum amount for a designated local authority's community charge. The Minister may designate a local authority if, in his opinion, the amount of the estimated expenses to be borne by the local authority's collection fund is excessive. A decision whether to designate an authority shall be made, Section 100 (4) states, "in accordance with principles determined by the Secretary of State."

In determining those principles, the Minister may distinguish between authorities of different types, and between those that have, and those that have not, been designated for the preceding year.

The requirement that designation be based exclusively on pre-determined principles would appear to be a safeguard against the arbitrary exercise of powers.

There's the rub. In determining the principles to be applied, the Secretary of State has, in fact, disregarded the needs and requirements of individual local authorities, and instead applied a rigid test based upon expenditure above Standard Spending Assessment (SSA), which is not expressly a part of the legislation but is a method devised by the environment department to determine how to distribute local revenue support grant among the various local authorities.

The unfairness of the charge-capping system springs from the legislation, rather than from the exercise of ministerial power under it

The charge-capped authorities argue that this non-statutory method is an inappropriate means for assessing need; indeed, it was never designed for that purpose. By failing to pay regard to the specific budgetary needs of each local authority, and in particular failing to consider the extent to which given needs require a departure from SSA guidelines, the argument runs that the Minister is exceeding or distorting the powers vested in him under the Act.

The policy set out in the 1988 Act is to recognise the differences in functions and responsibilities between seven listed classes of local authorities. It requires the Minister to give separate consideration to each nominated class.

The Secretary of State's policy, by contrast, has been to apply the same principle to all seven classes of local authority under the Act, although he has made a special allowance for over-spending inherited following the dissolution of the Inner London Education Authority.

The question is: does this Ministerial policy run counter to the legislative policy to the extent of invalidating the Minister's method of designation?

The problem for the challengers is the jurisprudence which emerged out of the litigation over rate-capping. The courts have held that "principle" in the context of local government finance need be nothing more than a mathematical formula. It does not mean that the Secretary of State must disclose the philosophy or rationale for his action.

Whatever may be the approach of the courts to the deployment of SSA as the "principle" for determining the designation of a local authority, the unfairness of the system of charge-capping springs rather from the legislation than from the exercise of Ministerial power under it.

The inclusion in the Act of a power to "cap" the expenditure of local authorities came as a surprise. The original idea behind the poll tax was that of imposing electoral pressure on local authorities to keep their expenditure within acceptable bounds and to put an end to profligacy on the part of local councillors.

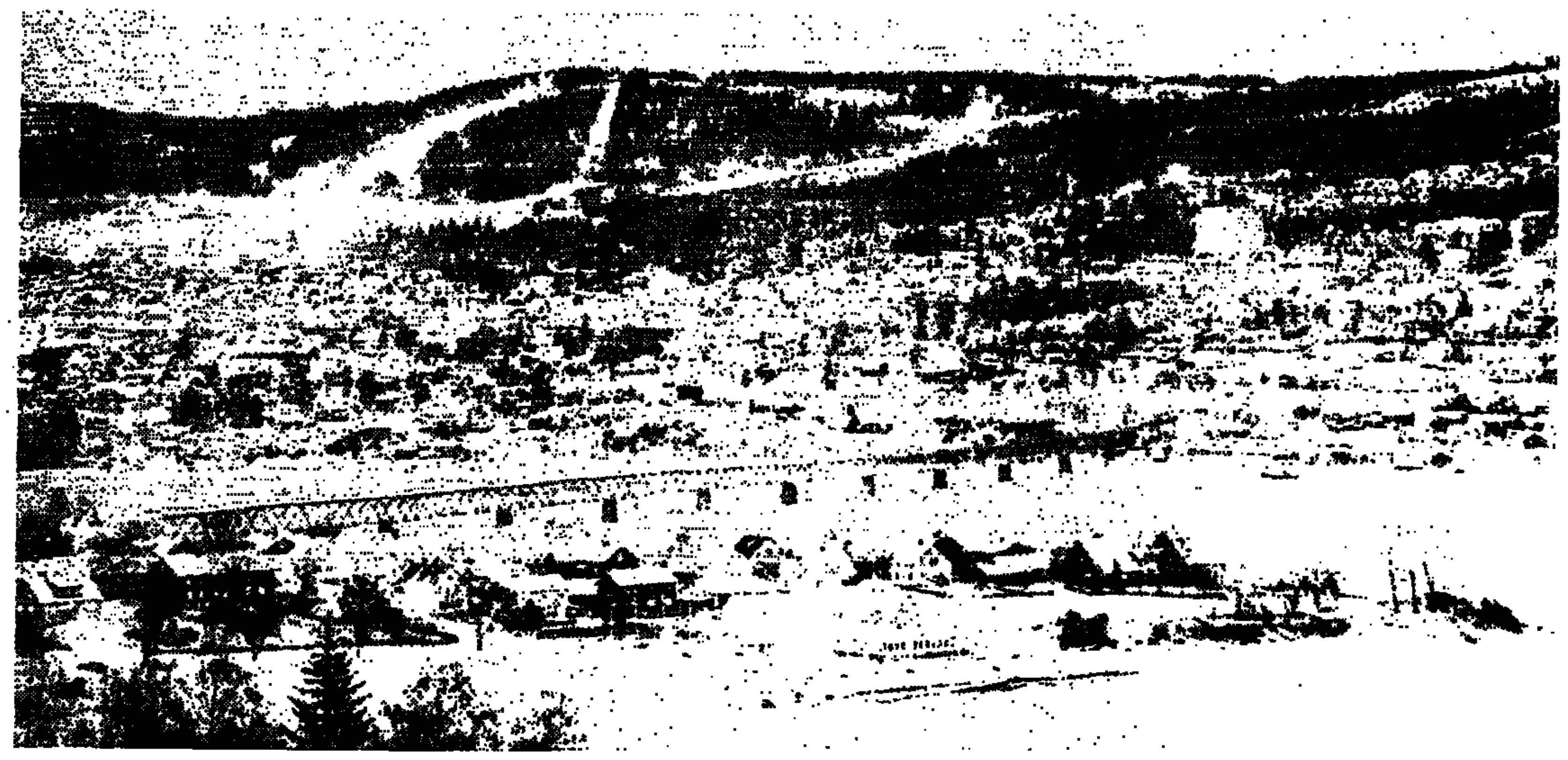
During the passage of the 1988 Act through Parliament, the Government expressed the hope that it would "in fact never occur" that an authority embarked on a spending spree detrimental to the interests of residents. But it explained that in such an event – and then only – it would exercise its power to charge-cap.

Is it conceivable that the courts will exceptionally interpret the statutory "principle" in accordance with the Government's declared policy of intervention only in the rare event of irrational spending policies reflected in the fixing of an inordinately high poll tax? If the answer is in the affirmative, the challengers may succeed in their litigation.

SECTION III

FINANCIAL TIMES SURVEY

While employers favour an early application to join the EC, politicians and public opinion are divided. Indeed, differences could destroy the minority government, says **Robert Taylor**. Fortunately, the coming talks between the EC and Efta may offer an alternative.



The town that got the Games

■ THE TINY town of Lillehammer *(left)*, which is *said to have staged* the world's first ski competition, in 1867, was awarded the 1994 Winter Olympic Games nearly two years ago.

Always seeking to outdo the Swedes, the Norwegians saw the award as a considerable victory, though for more than a year preparations for the Games have been bogged down in a domestic political quagmire

— *see page 8 of this survey*

ALSO IN THIS SURVEY

Editorial production: Martin Davies

NORWAY

Space may be the route

NORWAY IS in an indecisive mood, waiting on events.

The upheavals that have occurred in continental Europe since last autumn do not seem to have brought any reappraisal among most Norwegians of their relations with European Community — which they voted not to join, 18 years ago in a national referendum.

The latest opinion survey, published on May 4 in the country's leading newspaper Aftonposten, reflected the continuing divided, uncertain national mood over the issue. It revealed that 37.4 per cent of the sample favoured Norway's joining the EC, but that 38.1 per cent said they opposed the idea. A further 24.5 per cent either did not know what to think or had no firm view.

Although this virtual three-way split in public opinion is not encouraging to those who are impatient to see the country make an early application to join the EC, the *yes* cause has grown over the past 12 months.

Most politicians, particularly those with long memories, are well aware of the risks of pressing too hard on the issue at the moment. They still remember what happened in the 1972 referendum. "We are united about one thing in this country," says Norway's most popular politician, Conservative trade minister Mrs Kaci Kullman Five. "We do not want to experience once again what occurred then."

Her party supports Norwegian membership enthusiastically, a position it endorsed with fervour at its annual conference earlier this month. But, as the Conservative prime minister, Mr Jan P.Syse, argues, "we need the broadest national unity" on the EC question before Norway can seek membership.

His position is delicate, because, since September's indecisive general election, he has headed a coalition government with two small parties as partners — the Centre and the Christian People's — who dislike any suggestion that Norway should one day become an EC member.

It is possible that the fundamental difference of attitude over the EC will destroy the current Norwegian minority government. The Centre party was quick to express its public misgivings over the pro-EC tone of the Conservative conference.

The most significant event of the spring was the conversion of the radical right Progress party — now the third largest party in the country — to the EC cause. Under the leadership of Mr Carl I.Hagen it is not part of the coalition, but it holds the balance of power in parliament.

If Progress decided to force the EC question, it could well wreck Mr Syse's fragile coalition. At its March conference, the party came out in favour of a Norwegian application to join the EC as soon as possible, following the example of Austria which sent in its application last summer. Whatever emerges through the resulting negotiations should be put to a referendum, so that the people will make the final decision, added Progress.

The conversion of Progress to the EC, after a long period of sitting on the fence over the issue, is not going to be enough, however, to break the present impasse. It is the main opposition Labour party's attitude to the EC which still remains crucial.

Its leader, Mrs Gro Harlem Brundtland, would like nothing better than to take Norway into the EC, but she is a realist. Earlier this year, she intimated that circumstances might require a change in Labour's position over the EC sooner rather than later, but her comments unleashed a barrage of criticism from inside the party.

It is not hard to understand why. Opinion among Labour voters over the EC remains evenly divided, according to the opinion polls. Eighteen years ago the EC referendum split the party fatally, and Mrs Brundtland, for one, wants no repetition of that fiasco, which weakened Labour domination perhaps irreparably. There are signs that the party's youth movement is taking a positive view of the EC, but it seems likely that the leadership will continue to play a waiting game.

The 1986 collapse in the oil price revealed Norway's vulnerability to world energy-market conditions, but the country has staged an *impressive recovery over the past four years*

The Labour party conference in November is to be the start for a two-year debate on the pros and cons of EC membership. Labour will make a final decision on where it stands on the question at the 1992 conference, in time for the 1993 general election. Mrs Brundtland has suggested there could be a referendum on Norwegian membership some time in 1995 or 1996 after the conclusion of negotiations.

Norway's employers are certainly united in their belief that the country should become an EC member as soon as possible. Last November, Naeringslivets Hovedorganisasjon (NHO), the employers organisation, gave full support to an enthusiastic policy document in favour of Norway's joining the EC. "It is quite unrealistic that we can go our own way," insists Mr Fabro Manzetti, at NHO. "We export nearly 70 per cent of our goods to the EC."

But even Mr Manzetti recognises it will not be easy to convince the majority of Norwegians that they have no real alternative but to join the EC. He points to the country's geographical separation from continental Europe, as well as to its recent history to explain the underlying resistance that still endures. "Don't forget," he says. "Norway has only been an independent country since it broke from Sweden in 1905. The people are still trying to find their identity."

"There is a clear tendency to isolationism and a rejection of international attitudes in this country," argues Mr Olav Fagelund Knudsen, at the Foreign Policy Institute.

Professor Henry Valen, the country's leading political forecaster, also takes a cautious view of possible Norwegian EC membership. "The patterns of opinion are still similar to those recorded in the 1973 referendum," he warns. Many fear the erosion of their settled way of life as a result of membership. Farmers believe they will lose their huge subsidies. The teetotal lobby worry about cheap alcohol. There is a widespread dislike of the prospect of foreign immigration into Norway.

Not all the anti-EC views are so emotional. After all, the warnings of disaster for Norway predicted by pro-EC supporters in the 1972 referendum did not materialise. Thanks to the exploitation of its oil and gas reserves, the country has prospered without the benefit of EC membership. Moreover, Norwegian exports to the EC have not suffered from restrictions — at least, not up until now — and benefit from a free-trade agreement in industrial goods.

The 1986 collapse in the oil price did reveal Norway's vulnerability to world energy-market conditions, but the country has staged an impressive recovery over the past four years through its own efforts.

Thankfully for them, however, there appears to be a practical alternative. The forthcoming negotiations between the EC and the European Free Trade Association on the creation of an 18-nation European Economic Space (EES) could produce a result that will help Norway to adjust to the new Europe without any immediate need to settle the membership question.

"The trouble is the EC-Efta strategy is just an external projection of our internal indecision," says Mr Knudsen, at the Foreign Affairs Institute. Even the Efta route may go too far for the Centre and Christian People's party, and force the fall of the coalition if it produces a credible agreement some time next year that means Norway will lose too much of its national sovereignty.

But Brussels will have noted the strong views of Mr Syse and Mrs Five that they regard the EES as only a "way station" on the road to eventual Norwegian EC membership. Many wonder why time and effort should be wasted on trying to devise a complex EC-Efta agreement if many see it as a transient arrangement.

Today's hesitancy and unease about the EC in Norway is coupled with another feeling — that of the inevitability that Norway will eventually *join the EC. Opinion* surveys suggest the vast majority of people — whatever their individual view — believe their country will be an EC member by 2000.

All the more reason then — some argue — why the political leaders should have the courage to bring the issue to the forefront sooner rather than later. It is surely better for Norway to take part in the shaping of the new Europe from the inside — they reason — rather than have to accept the *fait accompli* of political and economic union as the price of membership in the late 1990s.

Politics: **Robert Taylor** considers the limitations of a coalition government that has learned to live from hand to mouth

The arithmetic that adds up to immobility

MR JAN P.Syse's non-Socialist coalition government seems to have few friends, and its demise is predicted almost every other week.

But then, most commentators doubted whether the amiable but low-key leader of the Conservatives, who polled only 22.2 per cent of the vote in September's indecisive general election, would be able to build any workable partnership with the small Centre and Christian People's parties, which polled a mere 6.5 per cent and 8.5 per cent respectively.

□

However, Mr Syse's diplomatic skills in working with his coalition colleagues and his desire for office were underestimated. So far, his administration has lasted eight months – longer than that of his Conservative predecessor, the abrasive Mr Kare Willoch, whose non-Socialist coalition fell apart in the May 1986 crisis, making way for a minority Labour administration under the redoubtable Mrs Gro Harlem Brundtland.

In fact, it is quite conceivable that Mr Syse and his colleagues will survive for some time, even perhaps until the run-up to Norway's next general election which is not due until September 1993.

But the Government has *learnt to live in a* hand-to-mouth way. It can only rely on the support of 62 out of the 165 members of parliament, with daily survival mainly dependent on the willingness of the 22 members of the radical right Progress party to tolerate its existence.

□

"We have to follow a course between Progress and the Labour party, relying on one or the other for support on different proposals to get them through parliament,". says Mr Arno Skauge, the finance minister.

The Labour party and the Left Socialists hold 80 seats between them (63 Labour and 17 Left Socialist), and polled 44.4 per cent of the popular vote; but together they are a tantalising five votes short of a majority.

The parliamentary arithmetic looks like a recipe for immobility, and there is nothing anybody can do about it. Under the Norwegian constitution, a government cannot dissolve within the four-year life of parliament. For better or worse, the parties have live with each other and find political solutions from among themselves. This has become very much the way in the 1980s in all the Nordic countries.

Indeed, it is growing harder to achieve decisive government that enables necessary but unpopular measures to be taken, because of the fragmentation of Norwegian politics. There are seven different parties in parliament, and the gulf that exists between them has widened in recent years, making it increasingly difficult for them to find the common ground for compromise.

□

As Professor Henry Valen will argue in his forthcoming study of the 1989 general election, the country is experiencing historically high levels of voter volatility. Last September, as many as four out of 10 voters either changed parties or did not vote at all, compared with how they behaved in the 1985 general election.

It is the breakdown of the old party alignment by the Norwegian electorate, as well as growing popular scepticism about those who govern them, which makes it so difficult to predict the pattern of the country's politics in the 1990s.

The trouble for Norway is that it now faces the need to take fundamental decisions about its long-term future. With the composition of the present parliament, however, observers believe it will be difficult for any decisive action to be taken. Waiting for 1993 is not an attractive slogan, but unless the political leaders can find a greater degree of bi-partisan cohesion the country could face the prospect of four wasted years.

Ashley Ashwood

Jan P.Syse: his diplomatic skills were underestimated

Progress bides its time

THE RIGHT-wing Progress party is going through a period of transition, as it attempts to become less of a protest movement and more a responsible partner, ready to help in taking on the burdens of government.

The new sobriety follows its relative success in September's general election, when its vote rose to 13.0 per cent from the 3.7 per cent achieved in 1985; and its parliamentary representation shot up from two to 22 seats.

In March, the Conservatives asked Progress to join them in the running of Oslo city hall, in a move that could presage a similar relationship at national level in the future. Certainly, Mr Carl I.Hagen, the leader of Progress was quick to welcome this change of attitude to his party among Conservatives, who have tended to look down on the populist antics of Progress with a mixture of contempt and alarm in recent years.

But there is no good reason to believe Progress intends to dilute its radical agenda in order to taste the fruits of office under Conservative tutelage.

For his part, Mr Hagen shows no signs of trimming his sails in order to join the Establishment that he loves to denounce. He is the first to admit that his party would have done much better in last year's general election if it had toned down its attacks on the welfare state, which worried some of his older potential supporters.

In the spring, he paid a visit to the US, and regaled the radical right Cato Institute with a lecture on the "failure of the Scandinavian welfare state", which must have been music to the ears of his hosts. Mr Hagen suggested that the welfare state had spread the marxist attitude of "from each according to his ability, to each according to his needs", by "destroying the work ethic and a sense of personal responsibility as well as many people's understanding of some basic facts – the connection between production and consumption, between performance and rewards."

He went to describe "so-called welfare rights" as "the right to other people's property or production results but not your own". While conceding the need for "a minimum safety net for the really weak", he cautioned that this should not be "so generous that it takes away motivation to get away from welfare and improve one's personal situation".

Mr Hagen then launched attacks on the Norwegian public health care system, which he said had produced "long waiting lists for life-threatening illnesses" and fully state-funded old age pensions, calling for the introduction of private initiatives such as vouchers for health provision and voluntary private pensions above a basic minimum set by the state.

Ever the radical, Mr Hagen also attacked the highly protectionist system that safeguards Norwegian agriculture. He pointed in particular to the massive subsidies that the Government provides to the farmers, which totals NK16bn a year or $25,000 a farmer.

Such outspoken language has never been heard for a long time from a Norwegian politician. It does not appear to have harmed Mr Hagen's electoral appeal, but it remains hard to see how Progress can work amicably with the other non-Socialist parties in a coalition. The party wants to privatise Norway's state industries, roll back the public sector and cut taxes radically, as well as pursue a robust foreign policy that slashes aid to poorer countries.

Mr Hagen and his colleagues make it plain that their long-term aim is to replace the Conservatives as the major political force on the Norwegian right. This ambition may no longer be as unrealistic as it was three years ago.

Progress, without Mr Hagen at its head, is hard to visualise, but the party is now much more than a band with one man playing all the instruments. It has attracted a surprisingly large number of able young people into its ranks, well-schooled in *laissez-faire* economics. Their views are not always to the liking of the old-guard populists, many of whom like their free-market ideology laced with social authoritarian values.

■ Carl I.Hagen: shows no signs of trimming his sails in order to join the Establishment that he loves to denounce

The Progress youth movement, for example, came out recently for homosexual marriages and unlimited immigration without welfare provision – suggestions that the parent party repudiated. The tensions inside the party, between libertarian ideas and more repressive instincts, are becoming more apparent as Progress grows larger.

Indeed, it will certainly need all of Mr Hagen's undoubted charm and proven political skills to keep everybody marching in the same direction. But so far his 21 parliamentary colleagues have stayed in line. Unlike Mr Glistrup's anti-tax party in Denmark, Progress has a more serious and less eccentric visage. Mr Syse does not like it, but the future of his makeshift coalition lies in Mr Hagen's hands.

Until now, Progress has kept its peace, but it will be surprising if the present calm will last for the whole of this parliament until September 1993. Much will depend on how far Mr Syse is forced to go in appeasing his tiny coalition partners – the Centre and the Christian People's parties – through policies that run counter to the free-market ideas favoured by Mr Hagen.

Not a discreditable record

THE CONSERVATIVE party's rank and file are understandably frustrated at what they see as the inability of the Government to put their party's programme fully into practice.

At the annual conference earlier this month, Mr Syse received only lukewarm applause from delegates for his defence of his government's performance.

Moreover, the opinion polls suggest that the Conservatives have lost support since last September, and the Prime Minister is finding it hard to make much impression on a doubting electorate.

In fact, the Government has done more than simply stay in office. Its record is by no means discreditable, given its perilous parliamentary position.

"We are working well together," says Mr Kjell Bondevik, the foreign minister and leader of the Christian People's party; though he admits he does 'feel the pressure' from time to time from his own rank and file. So far Government has a number of achievements to its name:

□ It managed to reach a compromise with Progress, to secure the passage of the 1990 budget with a NKr3bn reduction in public spending.

□ Two years of statutory incomes policy ended without a wage explosion, and a new one-year voluntary pay agreement was reached between the unions and employers, which was helped by the Government's conciliatory intervention behind the scenes.

□ An oil fund is to be established by the Government, to build up assets abroad from oil revenues, which won parliamentary approval earlier this month.

□ A new tax-reform programme was unveiled earlier this month, designed to cut in stages the highest marginal rate of personal taxation to 50 per cent by 1992, from its present level of 62 per cent.

□ The Conservatives have also promised to modernise the country's public sector through private initiatives in health care and education. Plans are being drawn up to privatise parts of the Norwegian state industry sector, and the Government has given its blessing to further liberalisation of the country's financial system.

□ The Government has also agreed on the introduction of a second television channel in Norway, financed by commercials.

No doubt, many Conservatives would like to see a more full-blooded implementation of their own party's policies, particularly on Europe, but there is plenty in the 30-page compromise document for government, drawn up by the coalition partners last September, to keep the Government busy for a full four-year life-span.

There is plenty in the 30-page compromise document, drawn up by the coalition partners last September, to keep the Government busy for a full four-year life-span

The dangers lie in the determination of the small Centre and Christian People's parties to exact too high a price for their inclusion in the coalition. The Centre, in particular, must remain an unpredictable force. It is little more than an interest group for the country's subsidised farmers, appealing to all that is reactionary in Norwegian life.

With only 11 seats in parliament, the Centre enjoys an influence in government that the size of its representation does not justify. The same is true of the Christian People's party, with its sturdy defence of the kind of small-town values caricatured in some of Ibsen's plays, who only have 14 seats in parliament.

The two of them together can place a substantial barrier in the way of any dynamic Conservative strategy to prepare Norway for convergence with Europe, if they really want to do so.

The economy: many key indicators are set fair, reports **Robert Taylor** — and last year saw a balance of payments surplus

Recovery is based on a new national self-discipline

NORWAY'S ECONOMY looks in much better shape today than it did four years ago, when it plunged into crisis with the fall in oil prices.

Indeed, there is an unfashionable degree of optimism among the forecasters at the moment about its likely progress during the 1990s. Only the Paris-based Organisation for Economic Co-operation and Development seems to take a hyper-critical view of Norway's performance nowadays.

Even Mr Hermod Skanland, governor of the central bank, seems well pleased after a period when his jeremiads about his country's economic laxity used to enliven the Oslo scene.

"We have regained the balance in our economy," he admits. "The priority has been to lay down the basis for sustained growth in the 1990s in the mainland economy. An important prerequisite for this was to ensure an improvement in Norway's competitive, relative cost position."

The country's finance minister, Mr Arne Skauge, is equally bullish about Norwegian economic prospects. "We now have a great opportunity to progress," he claims. "We have developed a more realistic approach to economic policy-making."

Certainly, there are a number of key Norwegian economic indicators which seem set fair.

In 1986, the country built up a huge external deficit that amounted to 6.5 per cent of gross domestic product. Last year, after four years of deficit, Norway recorded a balance of payments surplus of NKr8bn. It is expected to be even better in 1990, rising to as much as NKr13bn.

The oil recovery helped to ensure the turnaround. Oil production rose from 0.85m barrels a day in 1986 to 1.15m last year, while improved prices lifted the value of oil and gas exports from NKr53bn three years ago to NK73.5bn in 1989.

But, as Mr Skanland points out: "The major part of the improvement is accounted for by the balance on mainland Norway."

Last year, the country enjoyed a 22.5 per cent growth in its exports of goods and services, with a rise to NK261bn. With only an 8 per cent increase in imports, there was a trade surplus of NKr26.6bn, compared with a trade deficit of NKr4.3bn in 1988.

There was a 12.4 per cent improvement in Norwegian traditional exports – which exclude oil, gas, offshore units and ships. This mainly stemmed from a 21 per cent growth last year in metals sales to NKr30bn, an 18 per cent expansion in engineering products to NKr20.8bn, and a 14 per cent increase in forest industry products.

Optimism as wage curbs are lifted

■ WHAT HAS especially strengthened the optimism in Oslo this summer is the successful completion of a voluntary national wages agreement between the employers and the trade unions.

This follows two years of statutory incomes policies, which moderated pay rises. Many had feared the end of strict controls would precipitate a wages explosion, as happened in 1980 after a period of wage and price freeze. But their anxieties were misplaced. It now looks as though the general level of pay rises for 1990 will average out at around 4 to 4.5 per cent.

It is true that, under Norway's bargaining system, a third of workers covered by the national agreement are entitled to negotiate further rises at local level by June 1, but most observers believe the majority will enjoy only modest additions and that the end result will be to keep industry's labour costs at no more than 5 per cent.

Mr Skanland, at the central bank, would have liked pay rises of no more than 3.5 per cent in 1990, but he is content at what looks like being a modest outcome.

Indeed, the governor believes the outcome of wage negotiations in 1990 have been more influenced by "conditions in the labour market and the economic situation of the firm or industrial branch than we have been used to". There are no signs that the highly unionised public-sector workers are going to behave any differently from those employed in the open-market economy.

Mr Skauge is ready to give a great deal of praise to the leadership of the blue-collar union confederation (the LO) for the modest national pay agreement. "The LO has built up its economic competence in recent years," he says. "The unions realise that unrealistically higher wage increases would simply lead to higher prices."

Certainly, Norway's wage costs are lower than the country's main trading partners – Sweden and the UK. At the same time, manufacturing industry experienced an impressive increase in productivity by as much as 5.7 per cent last year – a much higher figure than that achieved by Norway's main trade rivals. Between 1983 and 1988, cost competitiveness in Norwegian industry improved by as much as 7 per cent.

Highest jobless rate since 1930s

■ IT IS true that a price has had to be paid for this turnaround, in the form of increasing unemployment.

Norway had an estimated seasonably adjusted rate of 5.6 per cent of its labour-force without a job during the first quarter of this year. Nearly a third of the 90,000 affected had been registered as unemployed for half a year or more. On top of this, around another 46,000 Norwegians are on training and labour market programmes.

By western European standards, this remains a relatively low total, but it is the highest in Norway since the 1930s, and it has had some political impact, particularly on the failure of the last Labour government to win the 1989 general election. Mr Skanland at the Central Bank believes the level of unemployment "will stabilise around the present level for some time"; while Mr Skauge, at the Ministry of Finance, can give no prediction of when he expects to see a real decline in the numbers out of work.

Other economic facts also suggest that Norway has recovered from its troubles of the middle 1980s. Consumer prices rose by only 4.6 per cent last year, and the increase in 1990 is expected to be around 4.0 per cent. The growth rate in 1989 was 2.3 per cent, and this year it will be 1.4 per cent. Private consumption was held back from 1987 to 1989 and the increase in public spending was curbed.

Not all has gone well. There was a 4.3 per cent drop in mainland investment last year, and it is expected to decline by a further 15.1 per cent in 1990. Domestic demand will continue to grow relatively slowly by only 1.0 per cent this year and even less in 1991.

The main causes for the return to balance, however, stemmed from a restrictive fiscal strategy with high interest rates. Now there has been a reduction in interest rates, both in absolute levels and relative to other countries.

Coalition plans to meet EC challenge

■ WITH THE economy in reasonable shape, the non-Socialist coalition is now anxious to embark on a wide-ranging strategy of what Mr Skauge calls "structural changes".

Set out in his recent revised budget, they aim to turn Norway into a much more market-oriented economy, capable of meeting the growing challenge of the European Community's internal market after January 1, 1993.

The policy has a number of key components, which are likely to secure wide agreement across the political spectrum.

The liberalisation of the financial markets, which began three years ago is continue further with the removal of remaining controls on foreign exchange transactions from July 1 this year, with provisions to ensure this does not lead to widespread tax evasion. The Government also intends to encourage further competition between the banks, with an acceptance of further mergers and rationalisation. A more liberal approach is promised towards the activities of foreign banks in Norway.

Earlier this month, Mr Skauge unveiled Norway's tax reform programme for the next three years, aimed at encouraging enterprise and savings. As a result, the top marginal rate of taxation looks set to fall from its present level of 59 per cent to between 45 and 50 per cent. This will involve a flat corporate and personal tax rate from central government at between 25 and 30 per cent.

There will be a halving of the level of corporate taxation, from 50.8 per cent to around 25.4 per cent, and an overhaul of capital gains taxes. Initially, the planned tax reform is not going to bring about any overall reduction in the level of public expenditure, but the pressure to cut the tax burden is expected to grow in the early 1990s.

The Government is also keen to encourage a more entrepreneurial climate in industry, through cuts in subsidies and the privatisation of parts of the state sector. Ideologically, the non-Socialist coalition would like to roll back the frontiers of Norway's public sector that employs nearly one in four of the workforce; but political realities are likely to dictate a gradualist approach, with perhaps the encouragement of some private initiatives in areas like health-care and education but without any radical action.

But Mr Skauge is also keen to cut back the growth in public spending over the next few years. Already he has introduced more rigorous disciplines into the way government departments spend their budgets.

"Our aim is to see that the public sector grows at a lower rate than the rest of the economy," he declares. But this will not prove easy. Unemployment is costing an estimated NKr14bn a year already, and the coalition partners cannot be expected to look favourably on any rigorous approach that means attacks on cherished spending programmes.

In fact, there is a much greater degree of bipartisanship in the management of the Norwegian economy than many outsiders recognise. In many ways, the new Government is merely continuing the market oriented and responsible strategy of its Labour predecessor. What differences exist are on the margins and do not arise from any fundamental conflict.

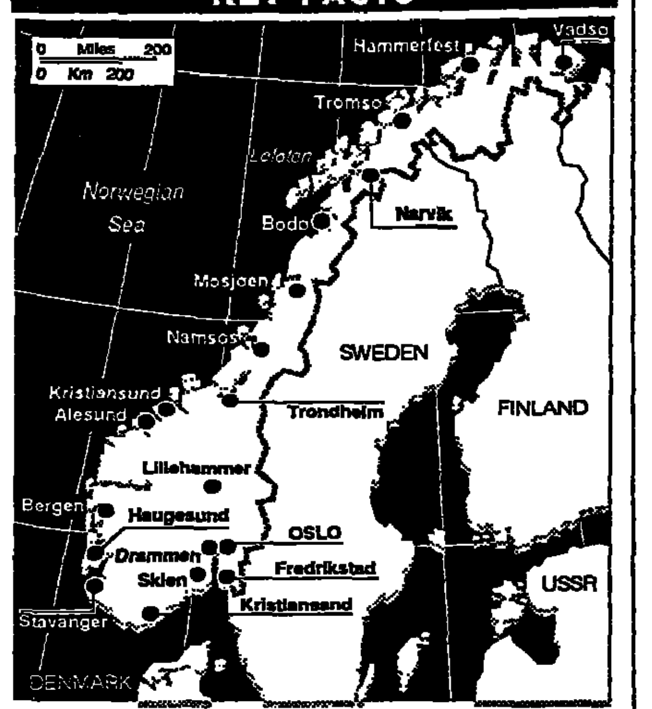
Indeed, Norway is preparing to become another European economy in line with the EC. Earlier this year, the Ministry of Finance made some tentative inquiries in Brussels about the exchange rate mechanism of the European monetary system. It is now increasingly probable that, when Britain aligns its currency to the system, Norway will decide to follow shortly afterwards, either by itself or in partnership with its non-EC neighbours.

What does seem to be clear this summer is that nobody in Norway wants to return to the bad old days before 1986, when the country spent its oil revenues as if there were no tomorrow. Norwegians learnt their lesson painfully in the oil crisis of 1986 and its aftermath. Whatever the temptations might be, there is a new sense of national self-discipline in the country.

The economic recovery of the past two years is not going to be thrown away in a reckless spending spree, for far-sighted Norwegians are already looking ahead to a future economy that will grow far less dependent on oil and gas revenues by the end of the 1990s.

☐ A third of workers covered by the national agreement are entitled to negotiate further rises at local level by June 1, but most observers believe the majority will enjoy only modest additions and that the result will be to keep industry's labour costs at no more than 5 per cent.

KEY FACTS



Area	324,000 sq km
Population	4.2m
Head of State	King Olav V
Currency	100 ore = 1 krone
Average exchange rate	6.90 kroner per US$

THE ECONOMY

	1988	1989
Total GNP ($m)	91,183	92,742
Real GDP growth (%)	-0.5	1.6
GDP per capita ($)	16,322	NA
Current account balance ($m)	-3,678	+366
Budget Surplus as % of GDP	0.8	-1.0
Exports incl non-factor svcs ($m)	22,999	27,440
Imports incl non-factor svcs ($m)	23,110	23,927
Trade Balance ($m)	-111	3,13
Trade Balance as a % of GDP	-0.1	-0.1
Trade Dependency (%)*	50.6	55.4
Export volume growth rate (%)	4.2	16.5
Total reserves minus gold ($)	267,713	784,813
Debt as share of GDP (%)	21	NA
Manufacturing productivity (%)	2.2	5.0
Inflation (%)	6.7	4.6

SOCIETY

	1988	1989
Unemployment (%)	3.2	3.8
Female participation rate (%)	74.4	NA

* Exports plus imports as % of GNP

Sources: EIU,OECD,IFS.

Foreign policy is conditioned by Soviet military proximity

A sturdy alliance member with a European vision

NORWAY'S INABILITY to come to terms with the European Community is hard to understand, in the wider context of the country's defence and foreign policy.

Unlike the other Nordic countries, it is not neutral. Indeed, for the past 41 years Norwegian governments, whether of the left or the right, have kept the country firmly in the western alliance.

In doing so, they reflect public opinion. A poll earlier this month, for Aftonposten, the country's leading newspaper, found that 81 per cent of Norwegians believe membership of the North Atlantic Treaty Organisation is necessary for Norway's defence.

It is not just the existence of a narrow land border between Norway and the Soviet Union above the Arctic circle in Finnmark that conditions the country's strategic outlook. More important is the fact that the Soviet military presence in its northern theatre of operations has actually been modernised and strengthened, not reduced, in the new age of perestroika and glasnost.

"Our proximity to the Soviet Kola peninsula makes our country particularly vulnerable," argues Mr Per Ditlev-Simonsen, Norway's defence minister.

"The main reason is the strong build-up of Soviet naval forces in the north. Along the north coast of the peninsula, the Soviet Union has established a number of large naval bases which, taken as a whole, are larger than the naval bases in any other single area of the world."

Of course, the huge Soviet fleet in Murmansk and the surrounding area is not primarily aimed at Norway. Its theatre of operations, in the event of conflict, would be the north Atlantic. But the proximity of such a large force makes the Norwegian government sensitive to its defence needs.

Relations between the Soviet Union and Norway have improved in recent months, but points of difference remain. The most important concerns the Soviet-Norwegian demarcation line in the Barents Sea. Negotiations have been going

■ Kjell Bondevik: 'We have a better chance than ever before to build one Europe'

on officially since 1974 to try to resolve the problem.

Norway insists that the continental shelf should be delimited on the basis of the median-line principle, endorsed by the 1985 Geneva Convention and the 1982 United Nations Law of the Sea Convention; while the Soviet position is that a "sector line" should divide the continental shelf.

The difference between the two lines is a disputed area of 155,000km, which is about the size of Norway's continental shelf in the North Sea. The Norwegians have said they are ready to compromise, but the Soviet government has refused to accept this.

In a visit to Oslo, in January 1988, Soviet prime minister Nikolai Ryzhkov suggested that the two sides agree joint exploitation of oil and gas resources in a limited area of the Barents Sea as a possible interim arrangement. But this did not go far enough to resolve the point at issue.

Recently concern has been expressed in northern Norway about the proposal by the Soviet Union to move its underground nuclear testing site from Kazakhstan back to Novaya Zemlya, only 600km from the Norwegian town of Vardo. The people of Finnmark fear that this will lead to radiation dangers in the Barents Sea, which will affect precious fish stocks. Worries have also occurred over a number of accidents affecting Soviet nuclear submarines patrolling close to Norwegian waters.

As Steve Miller – research fellow at the Stockholm International Peace Research Institute – argues, in a forthcoming study of the implications of a US military withdrawal from Nato's northern flank, it is possible that the Soviet Union would be able to operate its naval forces more freely in the Norwegian Sea if the US pulled out of the area. This, he says, would increase its chances of securing control of north Norway, and in turn "enhance its ability to operate still further south, further compounding the difficulties that would face a Europe lacking US military support in securing its interests in northern Europe."

Allied troops have never been stationed permanently in Norway. Nor are nuclear weapons allowed in Norwegian territory, on ships or planes. And it is Norway that provides critical intelligence to Nato on Soviet naval activities in the area. But since 1974, under a series of agreements, Norway has allowed the US to station equipment in central areas of the country that would be used in the event of any Soviet military offensive. The political parties do not wholly agree on the extent of these arrangements, but are not divided about the principle of such American involvement.

In fact, Norway takes its own defence seriously. The size of its internal mobilisation in the event of war would involve the highest share of the civilian population of any Nato country, nearly four times the rate of West Germany, and its spending on defence per capita is the highest in Europe.

The sturdiness of Norway as a member of the western alliance has also allowed the country to develop, since the mid-1980s, a unique involvement in the development of the EC's European Political Co-operation, the EPC. While not a full member of the EPC Norway has enjoyed a special status.

At the beginning and end of each six-monthly EC presidency, Norway's foreign minister is given a full briefing on EC developments. Mr Jan P Syse, the prime minister, was keen to press for an even deeper involvement when he met Mr Jacques Delors, the EC president, in Brussels in January.

Through Nato and the EPC, Norway can avoid any sense of diplomatic isolation from the events in continental Europe. "It is useful to have these contacts," declares Mr Kjell Bondevik, the foreign minister.

Sensitive about the EC membership issue, he recently set out a broader vision of how he would like to see Europe develop in the 1990s. "We have a better chance than ever before to build one Europe," says Mr Bondevik.

He believes this can be established in "three different dimensions". First, security and disarmament questions must still be dealt with through Nato and the Warsaw Pact. Second, economic and political co-operation should be furthered through the EC-European Free Trade Association negotiations, to create the European Economic Space. Third, cultural, environmental and human rights issues are to be fostered via the Council of Europe – an organisation Mr Bondevik thinks will grow in importance as eastern European countries become members.

But Norway's foreign minister believes there is now the need for the development of what he calls "an all-European organisation", centred on the evolution of the Conference on Security and Co-operation in Europe (CSCE). "I would like to see CSCE turned into a permanent organisation of the 35 countries that belong to it, including the United States, Canada and the Soviet Union.", he told the Financial Times. He envisages such a body as supplementary, rather than an alternative, to the existing range of institutions, but with an over-arching responsibility that would embrace all the areas covered by the others.

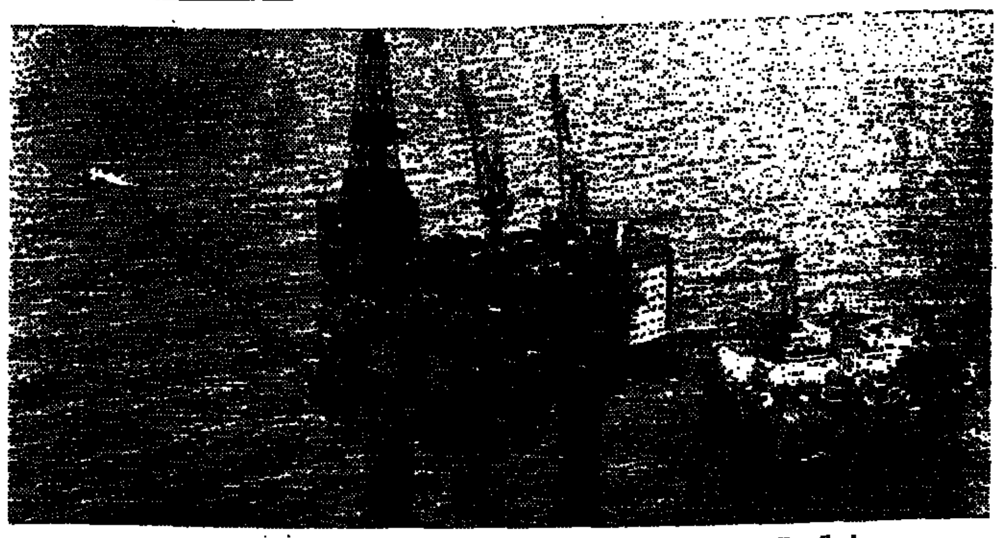
His idea may have some support elsewhere in western Europe, but Mr Bondevik is also keen to insist that Norway's foreign policy should not lose sight of its wider responsibilities. "At a time when so much is focused on eastern Europe, it is dangerous to forget the Third World," he argues.

There remains a broad parliamentary consensus – except for the right-wing Progress – to keep up Norway's relatively generous aid budget, which totals NKR7bn this year (around 1.1 per cent of GDP). A further NKr320m is being allocated to help eastern Europe, most of it to Poland.

The range of Norway's internationalism, mainly through the auspices of the United Nations, remains impressive; and a change of government, from left to moderate-right, has made no difference. It is therefore all the more difficult to understand why the issue of EC membership continues to worry the country's political Establishment.

Concern has been expressed in northern Norway about the proposal by the Soviet Union to move its underground nuclear testing site from Kazakhstan back to Novaya Zemlya, only 600km from the Norwegian town of Vardo

Robert Taylor



Norway's new North Sea oil discoveries are expected to be smaller than earlier finds

ENERGY

Production restraint on oil may end soon

NORWAY'S PETROLEUM industry, which employs more than 58,000 people, faces a decline in the mid-1990s, when production will fall significantly. However, a number of small oil fields may be developed; while discussions are under way with several countries interested in buying Norwegian gas.

About 40 per cent of export earnings come from international oil and gas sales. Last year, petroleum operations contributed 12 per cent of gross national product (GNP). The previous year's figure was 8 per cent. Revenue from oil and gas exports in 1989 was NKr73bn, compared with NKr48bn the previous year.

Norway, western Europe's second largest oil producer (after the UK), is also the world's third largest producer of natural gas (after the Soviet Union and Algeria).

Crude oil production is currently just under 1.7m barrels a day, while 27bn cubic metres of gas is produced annually for export to Europe. Statoil, the state oil company, believes gas exports may double by the turn of the century.

Existing gas contracts give Norway a European market share of between 15 per cent and 25 per cent on the continent.

The Norwegian Petroleum Directorate (NPD), the oil industry watchdog, estimates that Norway has enough crude oil reserves to produce at the current rate for 22 years. For gas production at current rates, the NPD estimate is 98 years.

Although, in the last three years, petroleum explorers have failed to find new sources to replace reserves, the number of exploration wells drilled this year is expected to increase by 20 per cent.

Last year, two exploration wells were unsuccessfully drilled in the Barents Sea. Since 1980, about NKr7bn has been spent on exploration in the area, though only traces of gas have been encountered. Norway's explorers believe the Barents Sea holds vast petroleum resources, and point out that 33 wells were drilled before commercial quantities of petroleum were discovered in the Ekofisk field, the first Norwegian development. They also point out that major gas discoveries have been made in the Soviet Barents Sea.

Norway's crude oil production will peak in 1992, declining substantially thereafter unless new oil is discovered and brought on stream.

New Norwegian North Sea oil discoveries are expected to be smaller than earlier finds. However, they will be relatively cheap to develop, fas they will be satellites to existing fields.

The NPD also hopes that about 5 per cent more oil will be squeezed out of existing oil fields by enhanced recovery methods. Phillips Petroleum Norway, the Norwegian unit of Phillips Petroleum, has increased recovery from its Ekofisk field to 28 per cent, from 18 per cent, through a major water injection programme. By extending this programme to other parts of the field, combined with gas lift, the NPD believes there is potential to increase oil recovery by 35 per cent from Ekofisk.

In 1986, when oil prices fell from an average of $27 a barrel to about $14, the value of Norway's production declined by about NKr30bn. The share of total exports fell to about 29 per cent of GNP, and a trade surplus of NKr41bn was swiftly turned into a trade deficit of NKr18bn.

Because of the significant impact which falling oil prices had on Norway's economy, the country sought to help Opec (Organisation of Petroleum Exporting Countries) prop up oil prices and to stabilise the world crude oil market by voluntarily implementing in January 1987 a 7.5 per cent oil production cut – in relation to capacity. The cut took about 80,000 barrels of oil a day out of the oil market, and has had a positive psychological effect in stabilising prices.

Production restraint marked a major shift in Norway's oil policy, from being based purely on commercial considerations to taking into account foreign policy aspects.

Indeed, Mr Thorvald Stoltenberg, the then foreign minister, declared: "It is clear that foreign policy aspects never lie far from the surface when questions concerning the production and supply of oil and natural gas are raised. Even though energy trade generally speaking is a commercial transaction, it is to a large extent also influenced by foreign policy considerations."

Norway's new tripartite centre-right government, elected last autumn, has reduced the self-imposed production limitation to 5 per cent. And Mr Eivind Reiten, the oil minister, warned at the end of last month that the country was likely to abandon production restraint next month, if it believed the contribution no longer helped to stabilise world crude oil prices.

Most companies producing oil in Norway have opposed the policy from day one, and believe it will be difficult for the country to terminate its unwritten agreement with Opec. Mr Oeystein Dahle, an executive with Exxon's Norwegian unit, said: "The insoluble dilemma of the authorities illustrates in an effective way what a mess they are in, and bears witness to the problems of politicising a commercial decision-making process."

Norway's new foreign minister, Mr Kjell Magne Bondevik, last month denied that there was a foreign-policy element in oil policy decisions. It is for this reason, he said, that Norway could not assist Lithuania by providing oil when Moscow cut supplies.

Domestically, however, Norway finds itself in the unenviable position of suffering severe unemployment – particularly in the north, which has not benefited from the country's oil wealth, because the major discoveries have been made south of the 62nd parallel.

However, there are oil discoveries which could be developed off mid-Norway. The problem is that these fields contain significant amounts of associated gas, for which no sales contracts have been signed.

Statoil and Conoco's Norwegian unit are jointly studying the commerciality of building a methanol plant in mid-Norway, which would be supplied with gas from the mid-Norwegian offshore fields.

In addition Norsk Hydro, Norway's largest quoted company, said it would expand aluminium production if it could buy gas cheap enough to fuel a power-generation facility.

The oil minister suggested earlier this month that the state, which owns the bulk of the mid-Norwegian Heidrun field's gas, might be willing to subsidise the price of the gas, in order to allow on-shore industrial projects based on gas to be commercially viable.

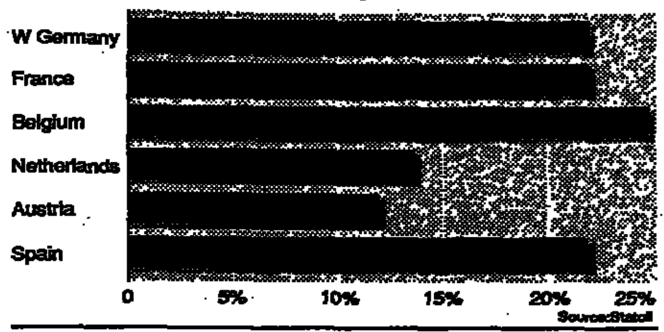
"Although we don't like it, the Government is prepared to play an important role in determining this gas price, and we are prepared to be flexible so that it may be priced below North Sea gas," he said.

The negotiating committee, which markets Norway's gas internationally, may find Mr Reiten's domestic gas pricing flexibility difficult to swallow, for it will surely create problems during discussions with foreign customers from whom it is seeking new contracts.

A major problem which Norway has had in expanding foreign gas sales has been the premium price that its natural gas commands.

Norwegian gas: market share

Based on fixed contracts volume to the year 2000



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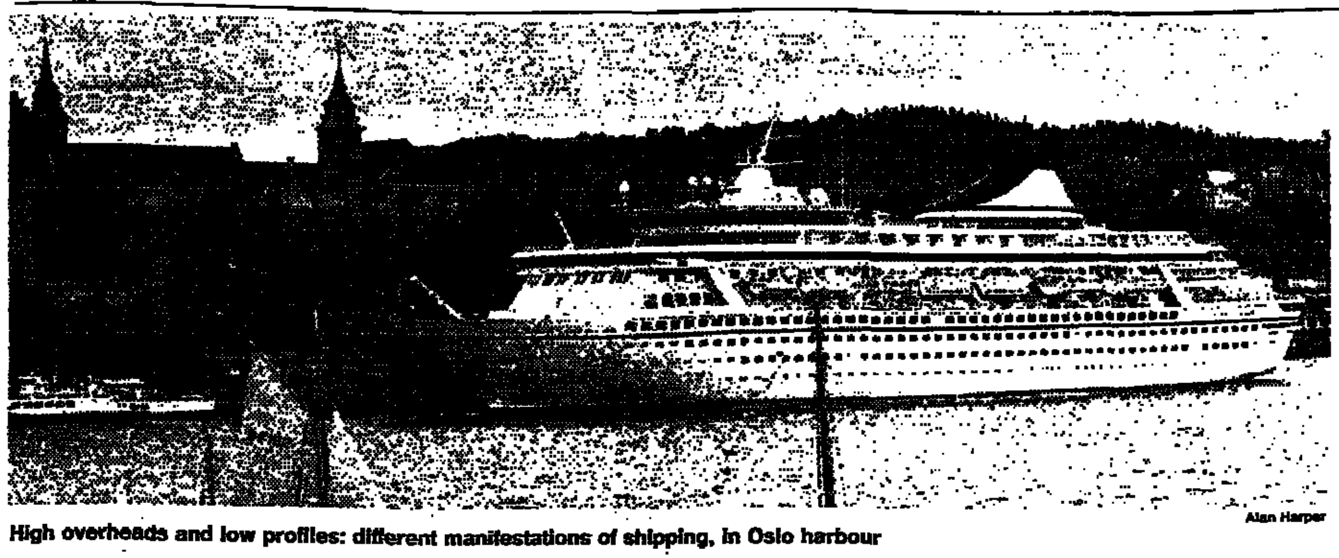
Karen Fossli



High overheads and low profiles: different manifestations of shipping, in Oslo harbour

Alan Harper

SHIPPING

More equity capital needed

NORWAY INCREASED it's share of the world's shipping fleet by nearly two percentage points to just over 7.5 per cent last year. But if it is to retain its position about $23bn will have to be invested over the next five years in the construction of new tonnage, according to Mr Jens Ulltveit-Moe, president of the Norwegian Shipowners' Association.

The association estimates that the Norwegian fleet was worth about NKr110bn at the end of last year. However, according to a recent study undertaken by the Norwegian Institute of Industrial Economics, there are problems in attracting sufficient equity capital to expand, based on the limited equity capital supply from the Norwegian market alone.

Debt financing, says the study, may become increasingly dependent on international financial markets, because Norwegian banks' loan portfolios already include a high proportion of shipping engagements.

For example, the biggest Norwegian player in ship-financing is Den norske Bank (DnB), whose shipping portfolio is about NKr23bn, or 12 per cent of its total commercial loan portfolio. This is a percentage which DnB says it is comfortable with.

Many Norwegian shipping companies have an equity base as low as 20 per cent, and consequently a higher risk profile than their US and British counter-parts whose equity bases are normally at about 50 per cent. Project financing dominates Norwegian shipping while, internationally, corporate financing of a portfolio of projects is normally preferred, because it gives a lower level of risk evaluated at the business entity level.

The study points out that only foreign investors willing to accept high risk are likely to be candidates for investments in Norwegian shipping.

Norway's shipping industry is seeking to boost its attraction to foreign investors, which is one reason why the study was commissioned. The country's long tradition in the industry has led to competence in nearly all aspects of the business.

Last year, the Oslo Stock Exchange set out to create an "international shipping bourse", in which it hopes to attract significant foreign shipping companies for listings to boost its attraction to foreign investors. However, since last autumn, only a couple of foreign shipping companies have been listed, with a few waiting in the wings.

The report also strongly suggests that, if Norway is to be a centre for international shipping, it will be necessary to make it easier for foreign investors to evaluate Norwegian business ventures, complicated by special corporate structures and non-standard tax legislation. "A general change in legislation, institutional set-up and business conduct to international standards is needed to make it possible for Norway to attract foreign investors."

These conclusions do not set well with Norwegian shipping companies, which covet the so-called K/S limited partnerships which, in many respects, resemble limited partnerships.

The largest part of the K/S partnerships are ship-owning partnerships, but an increasing number of chartering groups are being formed. Mr Anders Ingebrigtsen, executive vice president of Christiania Bank, points out, in the annual Platou shipbroking report, that the K/S system has become "a sophisticated and efficient instrument which provides a valuable supplement to the stock exchange, and for which the stock exchange can never be a wholly satisfactory substitute".

Norway's regulators are considering whether to overhaul the tax system, which may make K/S partnerships less attractive investment vehicles. This scares Norway's shipping community, which is lobbying to prevent it happening.

"In the wake of a prolonged shipping recession, the K/S system has undoubtedly played a valuable role as a supplier of fresh risk capital to a hungry industry," Mr Ingebrigtsen argues.

Proposals are being studied which would: abolish an existing ship classification fund; reduce depreciation from 25 per cent to 10 per cent; and reduce the tax-shelter benefits for K/S limited partnerships.

Norway's shipowners believe that changing the tax structure will be out of step with the expected increase in operating costs, higher quality requirements for ships, a levelling-off of second-hand ship values, renewal of the fleet, and inflation in building prices.

Mr Widar Salbuvik, managing director of Oslo-based Pareto Finans, believes that if Norway makes K/S partnerships less attractive, shipping companies will not be able to compete with those based in non-tax environments.

"Concurrently with the announced tightening of taxation terms for [Norwegian] shipping, ambitious plans are under way for the establishment of an international stock exchange for shipping in Oslo. The idea is to attract international capital to Norwegian shipping. Reality could be quite different. Shipping companies based in Bermuda, Liberia and Luxembourg are to be listed in Oslo, and will be an investment alternative for investors. The traditional ship-owning companies and limited partnerships will thus meet competition from untaxed companies ... We cannot afford to pay tax if we are to successfully compete with these countries," Mr Salbuvik argues.

Mr Salbuvik partly attributes the exceptional last five-year period for the Norwegian shipping industry, in which there has been unparalleled growth and remarkable expansion of its fleet, to a significant contribution made by the K/S limited partnership market.

"In 1985 the limited partnership market subscribed about NKr5bn to new shipping projects. Capital from this source has increased steadily, peaking at NKr11bn in 1989," he cites.

In contrast, the total figure for new issues on the Oslo Stock Exchange in the same period was between NKr3bn and NKr4bn annually.

However, the K/S partnership funds have tended to concentrate on profits in the second-hand market. They are unlikely to provide capital on the scale needed for fleet renewal. Worldwide, the percentage of vessels which are less than 10 years old has fallen from 62 per cent to 36 per cent in a decade, according to Lloyd's Register of Shipping, the London-based ship inspection organisation. These figures are likley to be representative of the age of Norway's fleet.

In 1987, Norway established the Norwegian International Shipping Registry (NIS) which also helped restore the health of the country's shipping *industry which had suffered a* debilitating decline in the late 1970s.

Last April, NIS-registered ships totalled 495 of which 56 are foreign owned. By this month the figure had reached 841 NIS registered vessels with a combined tonnage of 37.4m dwt.

The Norwegian Shipowners' Association estimates that, last year some NKr25.7bn was invested by Norwegian shipowners in second-hand tonnage and new buildings, compared with NKr14bn in 1988. At January 1, this covered 104 ships of 3.9m dwt, or about 8 per cent of the Norwegian-owned fleet. The association forecasts that, for 1990, investment will fall to about NKr18bn, though there are currently on order ships worth about NKr35bn for delivery in coming years.

In addition to making substantial investments in ships, Norwegian investors were also very active in buying offshore drilling rigs. According to Platou's annual report, by the end of 1989, they had acquired 56 units, or roughly 67 per cent of all rigs sold internationally, worth about $550m. "Of the total purchases, 26 were through K/S partnerships and 30 by corporations," Platou said.

Karen Fossli

FISHING

Crisis in the north

NORWAY'S ARCTIC population, which is wholly-dependent on fishing, is suffering a crisis.

It is caused by: a collapse in the natural renewal of fish-stocks; a non-diversified industrial structure; and a national policy that has, as one element, the strategic distribution of population to serve unofficially as a trip-wire against invasion on Nato's northern flank.

The crisis is not new, and again underscores the occupational hazards associated with being a northern fisherman.

At the turn of the century, Mr Johan Hjort, the father of Norwegian marine research, described the situation as desperate.

"We're suffering from a lack of cod stocks and massive seal invasions which have feasted on what little fish resources are available and destroyed our nets," he wrote.

The causes of the current collapse in Arctic cod stocks are complex, according to Mr Jon Lauritzen, an official with the fisheries ministry. "It's not as simple as a case of over-fishing," he claims, though the current hardships are no different from those that plagued Johan Hjort's industry.

Much of the blame lies with natural 70-year renewal cycles, which marine researchers say reduce the quantity of fish in the icey Barents Sea at certain times.

There are also recurring cycles when the temperature of the Barents Sea drops by up to 1 deg C. "This may seem an insignificant change, but when this phenomenon occurs, it slows by nearly one month the growth and development of plankton and algae on which capelin and cod feed, thereby, challenging their *survival,"* Mr *Lauritzen* explained.

The latest low-temperature cycle has been under way for nearly 10 years, and it is forecast that normal temperatures in the Barents Sea will not return until the end of the century.

The problems brought about by nature have been exacerbated, however, by an over-capacity in the fishing fleet and 11 successive years of major seal invasions.

Although there are signs that capelin and cod are returning, Norway's fisherman, marine researchers believe, will not benefit for at least another five years, and stringent quotas are not expected to be lifted before the turn of the century.

The northern fishermen, who fish primarily in nearby coastal waters, also lay claim to fish stocks in the Barents Sea. West-coast fisherman, however, are by nature high-seas venturers who rely on Barents Sea stocks for the bulk of their catch. This season only 4 per cent of the trawling fleet has been allowed access to northern waters.

However, the resourcefulness of west-coast fisherman has spawned the development of an alternative agricultural industry, to which they turn when fishing is not lucrative. In addition, they have developed a sophisticated fish-farming industry to supplement their income.

These problems come at a time when the country's unemployment level is at its highest since the 1930s – adding to the frustration of northerners, who see no opportunities in the big cities, their traditional option when the going at home gets rough.

In the northernmost region of Finnmark, the jobless rate is double the national average. The state has commmited more than NKr14bn to job schemes and training programmes for the unemployed, and been forced to provide additional financial resources to the northern region.

Annual subsidies to the fishing industry, which this year amounted to about NKr1.1bn, were last month supplemented by an allocation of NKr126m to northern fishermen. Of this, about NKr40m is to be used to cover interest on loans to their fleet; NKr50m to cover the interest on housing loans; NKr11m to subsidise interest payments on loans from the State Fisheries Bank; and NKr25m to help the *fish-processing industry.*

In addition, an NKr120m northern-subsidy package will reduce taxes, promote tourism and boost education and training.

According to Mr Anders Aune, the sole parliamentary representative of the newly-created "Finnmark list", the northern problems are twofold: those associated with the fishing industry, and those relating to depopulation.

A huge migration to the northern regions occured during the late 19th century, when a boom was created by railroad construction and mineral mining. By 1875, there were, for example, 3,000 Finnish-born residents in northern Norway, who were eventually forced – along with the others – to turn to fishing and agriculture or leave when the boom ended.

In spite of a high birth rate during the 1960s and 1970s, there has been a 25 per cent population exodus from the north during the last 10 years. "We are losing our best – our future. The youth are leaving in search of a better life," Mr Aune says.

Finnmark is a region bordering the Soviet Union, and larger than Denmark. It is home to Norway's nomadic Samis (Lapps) whose survival depends on reindeer husbandry, fishing and agriculture.

One of the biggest threats to their existence stems from a shortage of feed, which can just about satisfy two-thirds of their herd of 200,000 reindeer. The fishing crisis has compounded their problems.

Mr Aune, a renegade from the opposition Labour party, fears for the future of the northern population. "With the strict fishing quotas, which have been imposed, they cannot survive without sufficient Government aid," he says. "If they don't get that, they will leave."

However, an even greater problem facing the fishermen may be the hardened attitude of the non-fishing community. "It's *like the little boy who cried wolf* once too often," Mr Lauritzen cynically suggests. Earlier cries were unjustified, he claims.

Last year was a good year for the fishing industry as a whole, though total landings were down some 17 per cent. The decrease in landings was experienced by two groups – prawn-trawlers and small cod-trawlers – who had not earlier experienced low catch levels.

For the "hook, line and sinker" fishermen, total landings increased by 83 per cent, while for those using traditional nets an increase of 64 per cent in catch was experienced.

However, for Finnmark and North Troms fishermen, the situation became acute when the cod fled coastal waters during last year's seal invasion. It is little consolation that the Government is to allocate funds to develop and promote tourism and expand in the region's trade with the Soviet Union.

Karen Fossli

Insurance: there has been a dramatic shuffle among top non-life players

Realignment after the turbulence

FOR NEARLY five years, six Norwegian insurance companies have held about 97 per cent of the domestic life insurance market and 95 per cent of the non-life.

Although there has been little change in the life market-share, the last two years have seen a dramatic redistribution among a few of the top non-life players.

This shift has been mostly at the expense of Vesta and Storebrand, two of Norway's largest insurers; and to the benefit of Gjensidige, the second largest insurer, and Samvirke, the smallest of the top six.

During a two-year reorganisation and consolidation period, Storebrand was forced to reduce staff by 20 per cent and to wind down finance activities.

"The overall profitability of that lost market-share was practically zero," explained Mr Bjoern Kristofferson, managing director of Storebrand, which last year reversed an operating loss of NKr310.2m in 1988 to an operating profit of NKr1.061bn, a company record.

It is currently rebuilding the strength of its non-life insurance business, and is expanding operations in London and Singapore. Storebrand also has North American operations in New York, and a Miami office to serve the Latin American market.

□

For more than 100 years, Storebrand has been active in the reinsurance market, and claims that its results in this *sector during the last five* years have been well above the average of its competitors. It has also carved out a successful niche in the oil-and-energy and marine-insurance markets.

Norway's insurance industry struck turbulence in 1986, when world crude-oil prices plunged to their lowest levels in a decade. This caused severe hardship for the oil-dependent economy, and a record number of bankruptcies.

Financial results in 1986 were less than weak, and in some cases heralded the first losses since the 1930s. Though there was a slight improvement by 1987, the world stock-market crash that year undermined the road to recovery. By 1988, financial results had *improved. Last year, the* improvement was significant, largely because of investment income which ranged from 17.9 per cent to 27.7 per cent of total earned premiums of non-life insurance.

However, Norway's insurers are no strangers to turbulent times. There had earlier been a two-year period in which tax-motivated benefits allowed a good business in the sales of life insurance products. Many companies over-sold, Storebrand included. When Norwegian authorities changed legislation to eliminate tax benefits, these policies had to be bought back at considerable expense.

There had also existed a cartel, which was disbanded in 1983 but had freely exchanged *market information "for better* risk evaluation", though it had been accused of price-fixing.

The 1980s, according to Mr Kristofferson, was mainly a decade of de-regulation, which sparked heated competition and major changes within the non-life insurance market. A price war emerged and general insurance became unprofitable, largely because it was sold below risk.

The 1990s, believes Mr Kristofferson, will bring big changes in the structure of the general life insurance market, and keener competition from foreign players.

"It is no longer a situation of competition between the domestic players, because the international competition has arrived and is gaining market share. Vesta is a good example, for it is owned by Sweden's Skandia. Samvirke looks like it will become Swedish, too."

Mr Helge Kvamme, chair*man of the Norwegian Insur*ance Association, forecasts that, for 1990, improvement will continue and may be even *slightly above last year's level;* although to a large extent this will, he believes, hinge on investment income. For the first three months of this year, financial results have been on a par with last year's figures.

"The loss ratio between the summer and winter seasons has been substantially reduced in the last two years, and this also contributed to improved results," he said.

Earlier this year, Norway's insurers were given a fillip by the Government, which increased to 20 from 12 per cent of assets the amount that life insurance companies can invest in stocks. This is meant to become effective from July, and a further increase is being considered.

*In 1989, the insurance com*panies earned on stock investments between 40 per cent and 60 per cent of the booked value of their stock portfolios. When the announcement to raise the stock investment limit was made in February, the Oslo stock exchange insurance index rose by 14 percentage points.

Foreign insurance companies have a non-life market share in Norway of less than one per cent. At its peak, in the 1950s, the figure was 5 per cent when non-life insurance was dealt with by Norwegian brokers on behalf of foreign insurance companies.

"It's not Norwegian regulations which restrict foreign insurance operations in Norway, *but the nature of the mar*ket which is small, concentrated and domestically oriented," according to Mr Kvamme.

However, he points out that, as liberalisation of Norway's finance and insurance market continues, there may be increased opportunities for foreign insurance companies to buy Norwegian firms. Currently, foreign shareholdings in Norwegian insurance companies are restricted to 33 per cent.

Mr Kvamme, an enthusiastic supporter of market forces, believes Norway's regulators over his industry are far too restrictive about domestic mergers. "We would like more merger freedom, which would allow a separation of the life and non-life insurance sectors of our business when merger approvals are considered," he said recently.

Norwegian authorities allow mergers among only small insurance companies; but for a large company which, for example, has a weak non-life domestic market-share but would want to strengthen it through a merger, a restrictive practice is followed.

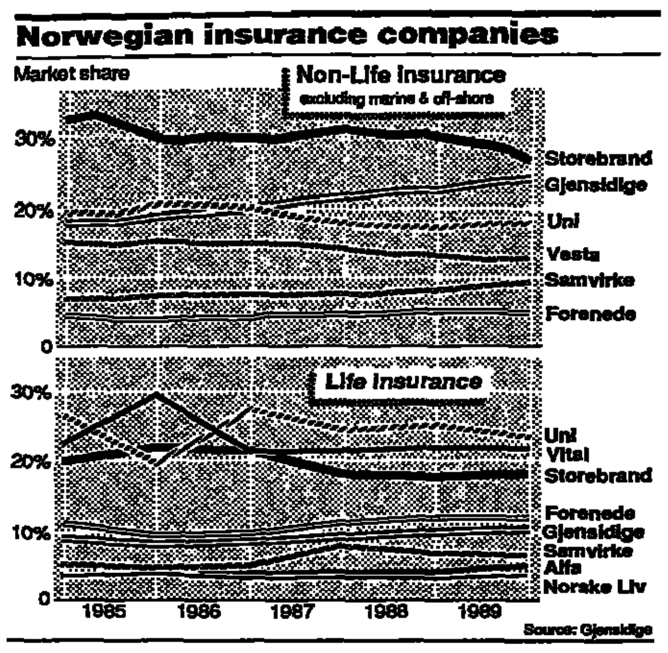
"We agree that market competition has to be maintained, but it is already very strong *and the time has come for a* more liberal merger policy," Mr Kvamme believes.

Mr Kristoffersen supports Mr Kvamme's view, and believes that it is short-sighted to restrict greater integration of the insurance industry, especially at a time of rapid changes in the industry which can only be met by strong companies. "Norway must see to it that this crucial industry has a strong, national basis to meet the challenges of the future," *he warns.*

Storebrand last year boosted its solvency margin to 56 per cent from 40 per cent, but has set itself the goal of a 75 per cent margin, so as to be "in a better position to compete with companies in neighbouring countries".

Karen Fossli

Norwegian insurance companies



Source: Gjensidige

FOUR YEARS ago Norway's biggest insurance company, Storebrand, announced plans, which met scepticism in nearly all quarters of the capital city, to enter the banking business.

Storebrand had applied for a banking concession from the finance ministry, explaining that its finance business had grown so big that it saw benefits in upgrading the quality of the business to that of a bank.

Shortly afterwards, Norway's oil-dependent economy became ravaged by falling oil prices. The rest is history, with Storebrand withdrawing its banking application. It has since all but wound up its finance business and returned to "insurance business basics".

Storebrand was ahead of its time in its interest in banking, but its plans fell victim to three years of extremely bad domestic market conditions, in which Norway's economy slipped into a recession. The company insists, however, that the banking option has been quietly put on a shelf for future dusting.

Storebrand believes that it is more reasonable to expect that a Norwegian bank will enter the insurance business before an insurance company enters the banking business.

It may be right. The European Community, in its normally liberal way, has encouraged banks to diversify into securities, insurance and other services. Though Norway is likely to remain outside the EC at least until after the mid-1990s, its banks are seeking to better position themselves, small though they are in comparison to European banks, and to harmonise with the EC and their European banking counter-parts.

In addition, Norway's banks must expand where their corporate customers expand; and those companies that are able are buying shareholdings in EC-based companies.

Christiania Bank, Norway's second largest, earlier this year announced sweeping changes into a holding structure, to allow a separate insurance business to be incorporated into the scheme. Oslo is rife with rumours that Christiania is secretly plotting a deal with Uni Forsikring, one of the top five insurance companies, with a view to making Uni a part of the bank.

However, Gjensidige, another top-five insurance company, is understood to be studying the conversion into a banking operation of Elcon, its finance arm.

Legal obstacles hinder mergers between banks and insurance companies, but it is widely expected that many of these will soon be removed by Norway's regulators, who are in the throes of dismantling barriers that hinder competitiveness.

The reasons for allowing the banks and the insurance companies to engage in each others' businesses are sound. Costs can be reduced by working closely together, to provide a wider range of services; and combining electronic data processing costs could allow a reduction in overhead costs related to high staff levels.

The banks also see that Norway is under-insured, and that there is scope to expand business by offering pension schemes to a growing number of people who are dissatisfied with the national retirement scheme.

One analysis has described the distribution net of the banks "a warm customer base" and that of the insurance companies as a "cold customer base". It suggests that the cost of selling to the former is about 20 per cent of the cost of selling to the latter.

It seems that the authorities would prefer holding-company structures to mergers, which could include insurance and banking divisions. The banks are already selling insurance products such as travel and *debt-coverage, and the insur*ance companies are offering their customers loans.

Both are seeking to encourage the authorities to apply the brakes for the time being on the liberalisation of foreign ownership rules. They want more time to restructure their industries before foreign investors buy them or become too strategically positioned.

Meanwhile, no month passes in which a Norwegian bank merger is not announced or brought under discussion. The number of commercial banks has been reduced from 68 in 1960 to 23. In addition to Norway's being over-banked, its banks are struggling with the twin pressures of 1992 and three years of high losses on loans and guarantees. A battle is being waged on a field of mergers and acquisitions, initiated by the recent official completion of a merger between Bergen Bank and Den norske Creditbank (DnC), two of Norway's largest banks, to form Den norske Bank (DnB).

It could be argued that the wave of Norwegian bank mergers may be ill-timed. *Low capital* ratios do not in many instances meet the requirements of the Bank for International Settlements' Cooke committee. And merging does not necessarily mean at the outset that ratios will be strengthened. It has been estimated that during the last five years the banks have lost more than NKr45bn on loans *and guarantees.*

This month Standard & Poor's Corporation, the US-based credit rating agency, downgraded to A-3 (its lowest investment grade debt rating) Christiania Bank, citing asset quality problems and continued high levels of write-offs. And last month S&P assigned an A-3 rating to DnB, the new bank, also citing asset quality problems, which may linger in the medium term, causing depressed earnings capacity while prolonging the time needed to bolster core capital.

It is for these reasons that many of the mergers will not be marriages made in heaven, but rather shotgun weddings.

Karen Fossli

BANKING

European harmonies

NORWAY'S TOP BANKS: 1988 ($m)

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Christiania Bank, Oslo	552	8.7	18	6,320
2 Bergen Bank, Bergen	401	2.5	29	16,239
3 Den norske Creditbank, Oslo	375	2.4	-132	15,633
4 Fokus Bank, Trondheim	203	4.2	-16	4,850
5 Union Bank of Norway, Oslo	175	2.4	-23	7,360
6 Spare Rogaland, Stavanger	130	5.2	7	2,479

Source: The Banker

THE STOCKMARKET

An oil-fired engine

THE OSLO bourse is likely to find it difficult this year to retain its position as one of world's top performers in 1989.

Development will rely heavily on interest-rate stability and world crude-oil prices (on which Norway's economy is dependent), for by mid-May domestic economic indicators, excluding oil prices, looked fairly bright.

In December, the annual FT Top 500 survey showed Oslo to have been Europe's most durable bourse performer over the year that had ended in June.

Among Scandinavian bourses, *during 1989 as a whole, the local* index in Oslo rose by 54.4 per cent, compared with Copenhagen's 33.6 per cent and Stockholm's 23.2 per cent, and a fall of 16.8 per cent in Helsinki.

It has been said, however, that if you can forecast oil prices, you can pin-point the Norwegian market. Achieving stability in the crude oil market is in the hands of the Organisation of Exporting Countries (Opec), which has violated last November's self-imposed production quota that had been raised from 20.5m barrels a day to 22m barrels a day.

It is estimated that Opec this year has been producing between 24m and 25m barrels a day, which has caused substantial market over-supply, result*ing in downward pressure on* world crude oil prices. Norway produces on average about 1.7m barrels a day.

Oslo's strong performance last year was fuelled by increased world crude oil prices, an unexpected cut in interest rates, and the abolition of a 1 per cent turnover tax.

Despite further increases in world crude oil prices this year *– to just under $20 a barrel at* the end of March, compared with $18 a barrel in 1989 – the spot price for UK Brent had fallen to $15.40 a barrel by mid-April, because of market over-supply and limited world crude oil storage capacity.

Oil prices picked up again at the start of May, after Opec had called an emergency meeting to help restore market confidence by setting new quotas. Still, oil price recovery was only between $16 and $17 a barrel, although this is about the level at which Norway is basing its budget.

After a slow start in January, the Oslo bourse all-share index broke through the 600 barrier in February; but by March it had sufficient momentum to post only a 3.1 per cent gain – in spite of an all-time high on March 16. By mid-April, the bourse had entered a period of correction, and the index fell back 5.06 per cent.

The setback can be explained largely by low oil prices and upward pressure on interest rates, which was caused by high international interest rates and, according to London-based broker Carnegie International, growth in Swedish interest rates favouring international investments. Carnegie believes that Norwegian interest rates will decline, though later than previously forecast.

Bourse turnover in April fell to NKr4.696bn, from NKr12.794bn in March. The total market value of the Oslo bourse in April fell to $28bn, from $30.1bn in March. By comparison, the market values in April of the three other Nordic bourses were: Helsinki $30bn, Copenhagen $41.4bn, and Stockholm $112bn.

The only Nordic bourse to experience a gain in April was Stockholm, which rose by 0.9 per cent. Stockholm also posted the highest turnover last month at $1bn, although Oslo was second, with turnover of $719m.

May has brought reason for optimism, because a moderate wage agreement has been settled; inflation expectations have been adjusted downwards, to about 4 per cent for the year as a whole; and upward pressure on interest rates had been reversed. Short-term interest rates are between 13 per cent and 14 per cent, or 1 per cent above the international trade-weighted level.

By May 11, the index had climbed to 639.46 points. At the start of the year, foreign investors owned Norwegian stocks worth about $7.8bn, or 29.8 per cent of the total value of shares *registered with the Norwegian* Register of Securities.

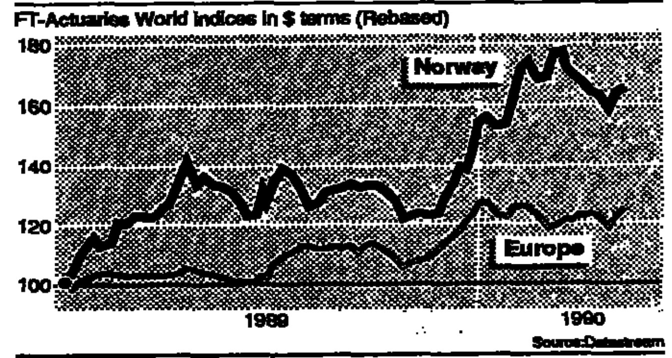
The attraction has been the under-valuation of Norwegian *stocks, compared with other* international stocks. Last year, foreigners bought Norwegian stocks worth about $3.7bn, with Swedish investors accounting for $1.7bn.

However, there is growing concern about the high number of rights issues planned by Norwegian companies this year, which it is feared could drain the market. So far, issues worth NKr6bn have been announced, though the figure is expected to reach Nkr10bn by the end of the year, compared with the NKr7.3bn raised in 1989.

Karen Fossli

How the market has moved

FT-Actuaries World Indices in $ terms (Rebased)



Source: Datastream

Karen Fossli on the likely privatisation scenario

Statoil is not on the menu

IT SEEMS fitting that the Norwegian subsidiary of Midland Montagu bank and its stockbroking subsidiary, Sun*dal Collier Montagu, should* be appointed financial advisers and arrangers for the first Norwegian privatisation, to include a public offering and stock-exchange listing.

For Midland Montagu gained much experience from such UK privatisations as Rolls-Royce, British Steel and the public water utilities.

As a bonus comes the strong placing power in the Norwegian market of the UK bank's Norwegian banking and stockbroking subsidiaries.

Midland Montagu AS and its stockbroking subsidiary have been given a mandate for the valuation, pricing, formation of an underwriting consortium, implementation of a flotation, and subsequent listing of shares on the Oslo stock exchange for Raufoss, the state-owned munitions, metals and auto parts producer.

Earlier this year, Norway's three-party centre-right coalition government announced that it would partially privatise Raufoss, and pointed to *other state-owned targets that* it may consider later. A working group, under the leadership of the state secretary of the business and commerce ministry, is studying a menu of potential targets.

A Conservative party committee had earlier published a report, which suggested sweeping privatisation of the public sector, to halt perpetual expansion of the civil service. The committee earmarked the state-owned railway, the state telegraph administration and the postal services.

However, it has been suggested in government circles that one candidate on the shopping-list may be Norsk Forsvarsteknologi, another state-owned arms maker, which was hived off nearly three years ago from the debt-ridden, now defunct, Kongsberg VaapenfabrikK (KV).

In February, the state sold for NKr26m property connected to the bankrupt Horten Verft shipyard, and said that subsequent state-owned property sales might follow. However, privatisation, or partial privatisation, of Statoil, the state-owned oil company, is not on the agenda, the Government has made clear – despite Conservative party efforts to put it there.

It has been estimated that, in the last decade, more than NKr200m has been raised by piecemeal sales of state shareholdings.

Earlier this month, the Government announced its intention to sell a 45 per cent stake in Norsk Jern Holding, a complex group of state-owned companies involved in steel manufacturing, to Elkem, the Norwegian light metals producer.

Another 25 per cent of Norsk Jern is to be placed privately with a group of Norwegian investors, and the state will retain a 30 per cent stake, *though there is a call option* for the state's stake to be purchased by Norsk Jern's new owners within two years.

Norsk Jern, into which the state has poured billions of kroner in the last half century, has been valued at NKr600m, which will have to be paid by its new owners over a three-year period. Controversy over the suggestion that the company has been under-valued is not, however, expected to interfere with the deal, despite opposition Labour party cries that the Government should retain a majority interest.

Mr Petter Thomassen, the minister of business and commerce, believes that the part-privatisation of Norsk Jern could lead to privatisation and

Continued on page 7

50 years after: **Robert Taylor** tells the story behind a sombre anniversary

'We are at war' 'Against whom?'

NEXT WEEKEND Britain's defence secretary Mr Tom King and his counterparts from France, Poland and Norway will be attending commemorative ceremonies in the small port of Narvik. It is 50 years ago since allied troops fought Hitler's forces for possession of the town, which was a vital link in the movement of iron ore from the Swedish mines at Kiruna by rail to fuel the Nazi war machine.

Over the past few weeks Norwegians have been remembering the events of April-May 1940. On April 9 that year they lost their innocence, when German military forces moved in to occupy the country. As the recent study of the Norway campaign, by the French historian Francois Kersaudy, points out, the country had hardly any defences.

The army in reality consisted of only 7,000 soldiers, who had not been on manoeuvres for years, on the grounds that it would have cost too much. They were armed with vintage .75 cannons and ancient 6.5mm Krag-Jorgensen rifles; but they had no sub-machine guns, no grenades, no anti-aircraft guns and no tanks. The Norwegian navy had never left port since 1918 to save money, and was made up of 70 small craft, the biggest of which the oldest ironclads in the world, described by the commanding admiral as "my old bathtubs".

The Imperial War Museum

December 1941: British commandos, having destroyed an oil storage dump in a Norwegian fjord, on guard against snipers or surprise German counter-attacks

The country had next to no coastal defences either. Oslo fjord was protected by one 19th century Krupp cannon, which had fallen into the water when mounted in preparation for action. Norway had no airforce. Its defence minister was a former conscientious objector and a leading figure in the Labour party's anti-militarist committee in the 1920s.

An expeditionary force had been mobilised by Britain and France, with the original intention of coming to the rescue of Finland which was fighting for its life against the Soviet Union but with the clear objective of cutting off Hitler's iron ore supplies from Sweden.

The armistice of March 12, 1940, between Finland and the USSR led to a temporary abandonment of that particular plan, but under the persistent pressure of Britain's First Lord of the Admiralty, Winston Churchill, it was agreed that mines be laid in Norwegian territorial waters, to force the German iron ore ships into the North Sea where they could be attacked by the British fleet.

In fact, Hitler moved faster and launched his assault on Norway before the Anglo-French plan could reach fruition. But many Norwegians were unsure initially who was attacking them on April 9. King Haakon VII was informed shortly after 1.30am by an aide-de-camp: "Your Majesty, we are at war". His reply was: "Against whom?"

The fighting in Norway ended the period of the so-called "phoney war". It was to last until June 9, after the evacuation of British and French forces from the beaches at Dunkirk. Most of the campaign was a fiasco, revealing a lack of preparation, incompetence and indecision; but it did produce the first serious defeat for Hitler, when Narvik was liberated by the Anglo-French expedition with Polish support on May 28. German forces were forced back towards the Swedish frontier. Only the catastrophe in France compelled withdrawal and saved neutral Sweden from being dragged into a conflict it sought desperately to avoid.

The resulting five years of German occupation was an experience that Norway will never forget. For much of that time they were ruled by the former Nazi gauleiter of Essen, Josef Terboven, with help for much of the time from a Norwegian whose name has become synonymous with treachery – Vidkun Quisling.

The war brought an end to Norway's fond belief that its security lay in neutrality and isolation. The country rejected the suggestion that it should become part of a Nordic alliance with Sweden and others. Instead, in 1949 it joined the North Atlantic Treaty Organisation. Support for collective security remains very strong among the Norwegians today.

The Hulton Picture Company

Oslo 1940: Norwegian civilians try to outstare the enemy on the other side of the street

Was the campaign in Norway simply an exercise in futility? Most historians believe that the two-month conflict was not completely without long-term significance for the final outcome of the war.

Its immediate result was the downfall of Neville Chamberlain, and his replacement as British prime minister by Winston Churchill at the head of an all-party coalition government. As Francois Kersaudy writes: "Nothing other than the dismal story of setbacks suffered in Norway could have led to the resignation of Chamberlain before 10 May 1940 (the date Hitler launched his offensive against the Low Countries and France); but after that date, there was not the slightest chance that members of parliament would have risked opening a political crisis in the midst of the Battle of France – and no one can possibly say what would have happened if Neville Chamberlain had remained prime minister of Great Britain in the summer of 1940."

But the débâcle in Norway had other consequences. Hitler was convinced until June 1944 that any western invasion of the European mainland would be made through Norway and not in a direct attack on the continent. He once called Norway "the zone of destiny in this war". As a result, he turned Norway into an armed camp with half a million German soldiers tied down along its long, barren coastline – as many as one German to every 10 Norwegians. If those men had been deployed in Normandy or elsewhere in northern France, the 1944 Anglo-American offensive might have been a much bloodier affair.

Moreover, Hitler's victory in Norway was not achieved without damage to the Nazi war machine. Most of his fleet was destroyed, while the British acquisition of most of Norway's large merchant fleet provided a useful contribution to the Battle of the Atlantic.

The brave patriotism of King Haakon VII, who put some backbone into his defeatist ministers at a time when resistance seemed pointless, was much appreciated in Britain and did something to boost national morale. In exile in London, the king became a rallying point for all Norwegians.

From those events, the ties of sentiment between the British and Norwegians grew closer. The annual gift by Norway of the Christmas tree that stands in Trafalgar Square remains a ritual that began as a thank-you present for British participation in the liberation of Norway.

The Norwegian campaign also made a salutary impact on British military thinking for the rest of the war. Again as Kersaudy explains: "It effectively discouraged the British military from launching further operations under similar conditions of dramatic aerial inferiority. During the next four years, Churchill was to use all possible means – and a few impossible ones as well – to get his generals to plan and carry out large-scale landing operations in Norway. There is little doubt that the British military's victorious resistance to such strong pressures was firmly grounded in the disastrous memories left by the Norwegian fiasco of 1940".

The Nazis did not treat the Norwegians as badly as the Poles and the Dutch, for example, but their country was never a "model protectorate" like Denmark. An estimated 3 per cent of the population perished during the occupation. As many as 10,000 Norwegians were killed and 40,000 more were sent to concentration camps.

Norway will never forget the scorched-earth policy applied by the Nazis in Finnmark and northern Troms after October 1944, when an area larger than Denmark was laid waste, with even the reindeer slaughtered and 50,000 people forced out at gunpoint. It was not until this year that German troops were allowed back into the north, to take part in Nato exercises. Such was the fear that their return would revive old bitterness.

□ *The book mentioned is Norway 1940, by Francois Kersaudy, published by Collins, 1990. See also, a recent military history of the campaign in The Doomed Expedition, by Jack Adams, Mandarin, 1990.*

The candidates for privatisation

Continued from page 6

the restructuring of the entire Nordic steel industry.

The Elkem deal is less mature than the Raufoss public offering and must clear two hurdles – approval by the cabinet and the Storting – before it is completed.

With the part-privatisation of Raufoss, the state hopes to raise between NKr250m and NKr300m in fresh equity for the company, as well as providing it with a permanent tool for future equity infusion, the latter being considered important for its long-term development.

The Raufoss part-privatisation will reduce the state's stake in the company to 53 per cent, and is likely to stand as a model for other privatisation targets in which a public offering and share listing will be made.

Although the part-privatisation is not aimed at foreign investors, in spite of a claim to ensure the widest possible distribution of the shares, under Norwegian law foreign investors can own up to 33 per cent in domestic companies.

Mr Morten Aas, managing director of Norwegian Midland Montagu, said that, following Storting acceptance of the arrangement, a prospectus is to be made ready with the subscription period commencing thereafter. Completion of the deal is aimed at the end of June. Work to value the company is currently under way.

Raufoss is one of the healthiest companies among those being considered

Raufoss is one of the more interesting companies to be privatised, and one of the healthiest among those being considered. Exports comprise 70 per cent of turnover. The company has a record of stable profits, low leverage and modern production facilities. Raufoss also enjoys a strong position within several markets of strategic importance.

Military production – procurement such as rocket systems and munitions – accounts for about 40 per cent of turnover, and main customers include the Norwegian defence ministry and the armed forces of Nato.

The metals division was established to ensure access to materials for munitions production. Investments were made in foundry, rolling-mill and press and advanced processing machinery. There are sales companies in West Germany and France, and last year metals accounted for 19.9 per cent of total turnover.

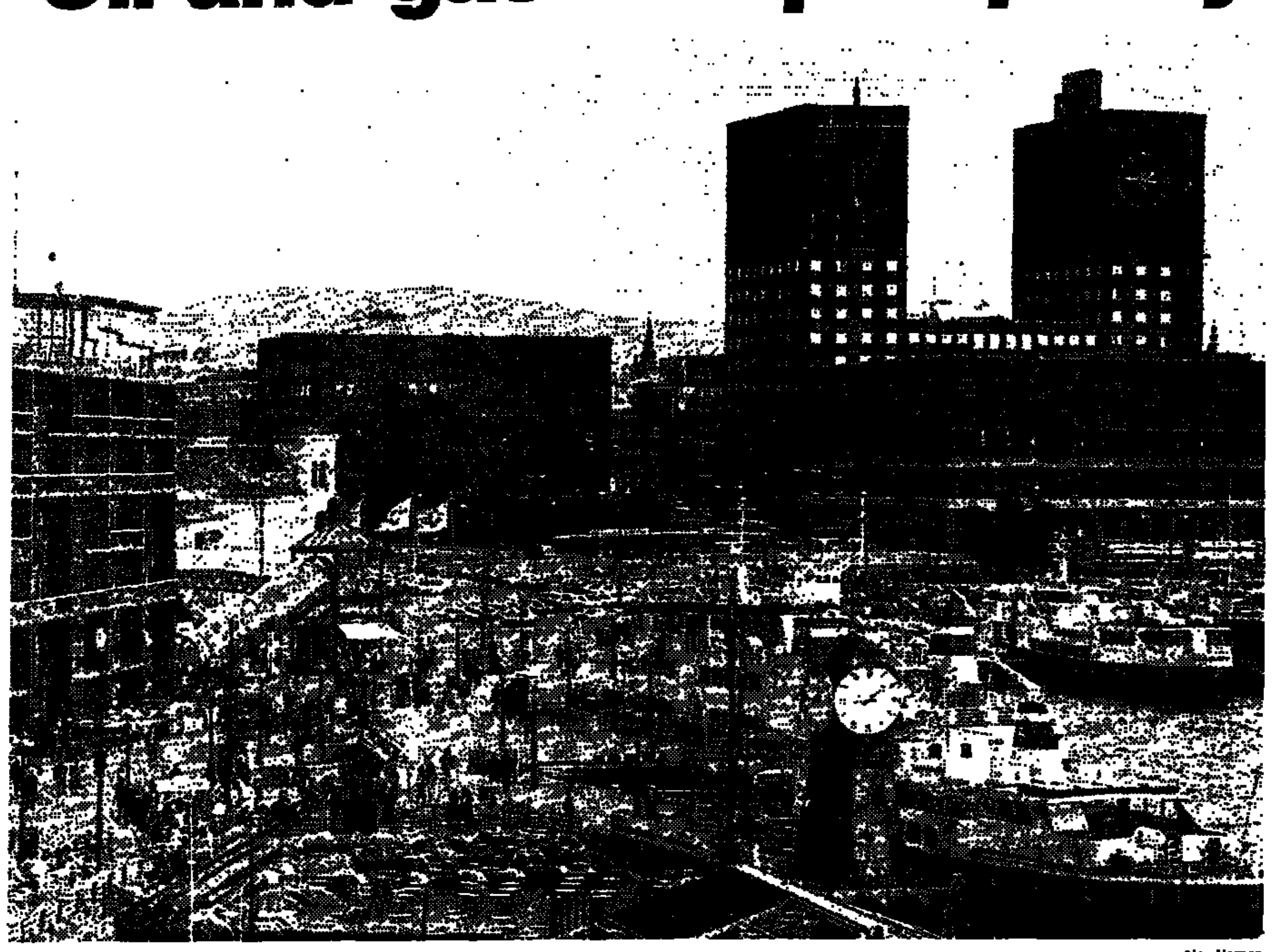
The automotive parts division, which last year accounted for 32.1 per cent of turnover, has production facilities in Norway, Sweden and Belgium. The division produces auto body parts, chassis parts and high-strength aluminium extrusions. For more than 30 years it has produced parts for Volvo, and also supplies Saab, BMW, Audi, Porsche, Daimler Benz, Maserati and GM Chevrolet.

Research and development costs have varied between NKr80m and NKr105m annually, of which 50 per cent has been covered in development contracts by customers.

With a staff of 2,500, turnover last year reached NKr1.7bn, with net profits of NKr61m (for 1988, the respective figures were NKr1.5bn and NKr52m). Annual investments in recent years have ranged between NKr100m and NKr150m.

Robert Taylor takes a statistical view of life

Oil and gas fuel prosperity



Alan Harper

■ Better off than they were 10 years ago, and less gloomy than their Nordic neighbours: Norwegians enjoying the Oslo waterfront

NORWAY'S 4.2m people are among the most affluent in the world.

According to the latest statistics published by the Organisation for Economic Co-operation and Development – measured by gross domestic product per head, at current prices and purchasing-power parities – Norwegians in 1988 averaged $16,322. This was the fourth highest in the OECD, after the US, Canada and Switzerland.

The figures for private consumption per head, using current purchasing-power parities, places Norway in an equally advantageous position.

There is little doubt that oil and gas revenues from the late 1970s onwards have helped to push the level of Norwegian prosperity ahead of that in Sweden and Denmark. It is true that, over the past four years, private consumption per head has been squeezed more tightly than in many other western European countries; but the period of relative austerity has not dramatically reduced Norwegian lifestyles.

Norwegians are among the world's healthiest people, with a male life expectancy of 73.1 years for a man born in 1988, and 79.6 years for a woman. Figures on infant mortality per 1,000 live births in Norway show a total of 8.5 – one of the better performances in Europe.

With 2.2 doctors per 1,000 inhabitants and 89 dentists per 100,000, the country is relatively well supplied with medical services; though its 5.8 hospital beds per 1,000 people is the lowest ratio in the Nordic region.

Norwegians are less prone to suicide than other Nordics. In 1988, there were 707 recorded suicides in the country, out of 45,404 deaths, compared with 1,541 suicides in Sweden and 1,363 in Finland. Legal abortions totalled 275.6 per 1,000 live births, compared with 360.1 in Denmark.

Norwegians are much better educated than they used to be. In 1986, an estimated 42 per cent, aged between 16 and 24, were in some form of education, compared with only 28 per cent of the same age group in 1964.

There are fewer telephones per 1,000 people in Norway than in other Nordic countries: 478, compared with 882 in Denmark and 662 in Sweden – but Norwegians write and receive more letters than their counterparts in the region.

They also buy more newspapers (548 per 1,000 in 1988) than the rest of the Nordics except for Finns. They go to the cinema more often (2.8 visits per person in 1988), with over half of them going to a dance hall or disco, but they watch less television than other Nordics.

But 80 per cent of Norwegians read a book in 1986, and 20 per cent of them read at least 20. As estimated 64 per cent are members of some kind of voluntary organisation, in which 41 per cent are active. But only 59 per cent of Norwegians belong to a trade union.

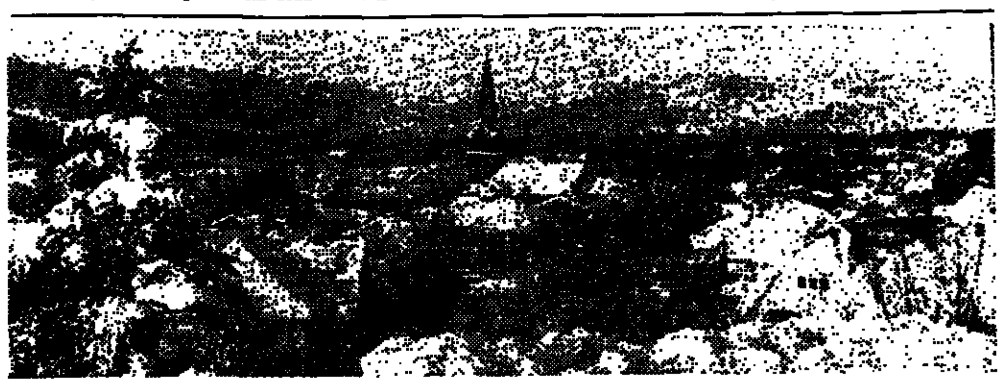
Around 31 per cent belong to an athletics club, but less than 10 per cent say they are members of a religious organisation, and around 14 per cent belong to a political party. But in 1987 as many as 69 per cent of men and 60 per cent of women went on a hike or skiing tour.

Norwegians are more law-abiding than their Nordic neighbours. In 1988, 72 per 100,000 of them were in prison, the lowest figure in the region; and 379 per 100,000 were found guilty of a penal offence during the year, compared with 1,115 in Sweden. Divorces are less common in Norway (9.37 per 1,000 married) than in the other Nordic countries.

An estimated 30 per cent of Norwegians are exposed to either noise or pollution where they live, but only 3 per cent live in a dwelling with no bath or toilet and 5 per cent in a dwelling that is cold or damp. An estimated 82 per cent are homeowners, while just over a third have a "spacious" dwelling – defined as a one-person household with three or more rooms.

Most Norwegians are better off now than they were 10 years ago, according to the country's level-of-living surveys. Only 7 per cent in 1987 said their material standards were bad, but 20 per cent said they were good.

Sources: Yearbook of Nordic Statistics 1989-1990, published by the Nordic Council; Sosialt Utsyn 1989; Norway Central Bureau of Statistics.



Lillehammer is believed to have staged the world's first ski competition, in 1867

The Winter Olympics will provide...

A world showcase

FOR THE first time in more than a year, since he was appointed president of the Lillehammer Olympic Organising Committee (LOOC), Mr Gerhard Heiberg, one of Norway's top industrial leaders, can relax.

Last month, the Storting (Norway's parliament) approved a NKr7bn state guarantee for the 1994 Winter Olympics. It also approved the budget, organisational structure and a number of the sites where facilities for the important international winter event will be constructed.

Total investment for staging the 17th Winter Olympic Games is put at NKr13bn over the next three years, and securing the approval was the single biggest hurdle.

Winning the backing of the Storting has been tough for Mr Heiberg, who presented a budget which had kept expanding since 1983 when Lillehammer first set out to claim the winter Games.

Political scepticism increased continually, for it had been earlier grossly underestimated that a state guarantee of just NKr1.8bn would be needed.

The tiny town, which is said to have staged the world's first ski competition, in 1867, was awarded the Games nearly two years ago in Seoul, during the summer Games.

Mrs Gro Harlem Brundtland, the then Labour prime minister, travelled to Seoul to pledge publicly Government support for Lillehammer's application, and her endorsement may have been what swung the vote in Norway's favour away from Sweden.

Always seeking to outdo the Swedes, the Norwegians considered the award a considerable victory, though for more than a year preparations for the Games have been bogged down in a domestic political quagmire.

There are numerous challenges before they begin on February 12, 1994. Environmentalists are not yet satisfied with the locations of some facilities, and cite at least one example in which a major nesting ground of wildfowl may be put in danger. Some 10,000 volunteers will also have to be recruited, transportation infrastructure expanded and telecommunications facilities established.

Arranging the Games may be a snap for Norway, the "cradle of skiing", which has a long tradition of hosting international winter sports competitions and one Winter Olympics already under its belt. Oslo hosted the Games in 1952. However, its marketing skills will have to be significantly improved, particularly if it is to succeed, after the Games, in attracting interest to the area.

Mr Heiberg is the first to admit that the challenge of staging the Games equals that of any major industrial project that he has led. Getting budget approval has been an uphill battle, dominated by political controversy, mostly over allocation of funds to a prestige project at a time of record unemployment and distractions of other domestic social welfare problems.

"Of course, I understand all the controversy, what with high unemployment, a lack of funds for support for the elderly and sick... But the timing would always have been bad for some political reason or another," Mr Heiberg said. "The timing is good... Jobs will be created, and for 16 days in 1994 the world's attention will be focused on Norway.

"I set a deadline for Storting approval by summer. Had that slipped, the Games would also have started slipping from our grasp and into the hands of the Swedes."

Mr Heiberg believes the Games will provide Norwegian industry with a unique marketing opportunity, which it can ill-afford to miss. "The Lillehammer Olympics can be described as a world exhibition – for the display of our products and technology – with the added advantage that Norway will be the only country exhibiting."

Volunteers have to be recruited, transport infrastructure expanded and telecommunications established

In addition, he believes the occasion will help Norway's depressed building and construction industry. It will provide an opportunity for Norwegian companies to seek "strategic alliances" with foreign companies for projects for the Games. Mr Heiberg hopes such alliances can lead to successful partnerships afterwards.

"Foreign companies are welcome to join this project, and already we have marked a great interest from companies in other Nordic countries, Britain, and Japan," he explained.

Lillehammer had originally bid for the 1992 Winter Games but narrowly lost the vote to Albertville, in France. Considering itself well-placed for the 1994 bid, construction began soon afterwards of an outdoor stadium and an alpine ski-run.

The "compact games" concept is based on the premise that all the sports facilities are to be situated within a limited area consisting of Lillehammer, the main arena; Hamar, 56km to the south-east; and Gjoevik, 45km to the south-west, where two large ice-rinks are to be built.

However, considerable infrastructure expansion will have to be undertaken. Roads will have to be built before site construction can commence, and it is estimated that railway investment of more than NKr500m will be necessary to accommodate 24,000 people travelling by train on peak days.

Securing accommodation for a massive influx of people is a big problem, though it is expected that many visitors will stay in Oslo, a two-hour train journey to the south. "We hope to shorten the train journey, and plans call for trains leaving Oslo for Lillehammer every 10 minutes during weekends," says Mr Heiberg, who expects principal contracts to be signed this autumn.

CBS, the major US television network, paid $300m for transmission rights to the US, and rights have also been bought by the European Broadcasting Union and Canadian Television.

IBM has bought the main sponsorship rights. Christiania Bank, Norway's second largest bank, paid NKr60m for a main domestic sponsorship entitlement.

A committee, to determine the potential for "after use" of facilities, is already working, though it is envisaged that some investments will have to be written off. It is also hoped that Lillehammer will become a tourist attraction before and after the Games.

"This is a chance of a lifetime to put Norway on the map, and the Games will open doors for us in a lot of countries... The world's level of understanding about Norway and what we stand for will be raised," Mr Heiberg believes.

Karen Fossli